Funding Circle Holdings plc
Full Year 2022 Results
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THIS ANNOUNCEMENT INCLUDES INSIDE INFORMATION AS DEFINED IN ARTICLE 7 OF THE MARKET ABUSE REGULATION NO. 596/2014

Funding Circle Holdings plc ("Funding Circle") today announces results for the year ended 31 December 2022.

Lisa Jacobs, CEO at Funding Circle, says:
"We've made good progress against our medium-term strategy, expanding our reach in distribution and depth in products. We introduced lending as a service in the US, and expanded our product set through the launch of super prime loans in the US and near prime loans in the UK. We have continued to see strong engagement with FlexiPay — so our customers can now not only borrow, but pay and spend with Funding Circle for the first time.

"I'm really pleased with how the business reacted to the evolution of the economic environment and transitioned back to commercial lending, with government schemes phasing out in 2022. Overall we delivered a solid financial performance. We were prudent in our lending in 2022, and will continue to be whilst conditions remain challenging — as expected in the UK in 2023, where we have pushed out our 2025 income targets by a year. We're confident in the US and are excited about new FlexiPay growth over the medium term. Having built strong foundations to deliver against the plan, we expect to double Group income over the next three years."

Executive Summary:
- Following a period of significant market uncertainty, Funding Circle has proven resilient through change, delivering a solid financial performance in FY 22 as government loan schemes were phased out.
- Loan returns remained robust and attractive with upgraded returns for several cohorts.
- Continued institutional investor demand to fund loans with new forward flow agreements in the UK and US.
- In 2022, lending through Funding Circle contributed £6.9bn to UK GDP, supported 106,000 jobs and contributed tax revenues of £1.4bn to the UK economy.[1]
- Customer satisfaction remained strong with Group NPS at 77 and a UK Trustpilot score of 4.6. In the UK it takes only six minutes to complete an online application with an instant decision for 70% of applications.
- Good early progress made against the three strategic pillars of our medium-term plan:
  - **Attract more businesses**: two Lending as a Service ("LaaS") partnerships in the US;
  - **Say yes to more businesses**: expanded customer segments to super prime in the US and near prime in the UK;
  - **#1 in new products**: tripled FlexiPay transactions from H1 to H2; launched FlexiPay card in beta.
- Our balance sheet remains a strategic asset, with net assets of £284m, including cash of £178m.
- We have introduced guidance for 2023 and medium-term guidance is updated.
  - UK Loans reflects the challenging economic environment in 2023 pushing back 2025 targets by one year.
  - US Loans guidance for 2023 shows strong momentum and medium-term guidance is unchanged.
  - The significant progress we've made on FlexiPay means we have outlined our expectations for the first time, including a step up in investment in 2023.
- Now including FlexiPay, we target a doubling of Group total income by 2025.

Financial Performance:

	2022	**2021**
	£m	**£m**
Originations	**1,481**	**2,296**
Loans under Management (LuM)	**3,743**	**4,457**
Operating income	**131.4**	**165.5**
Net investment income[2]	**17.3**	**41.4**
Total income	**148.7**	**206.9**
Fair value gains	**4.8**	**28.6**
Net income	**153.5**	**235.5**
AEBITDA[3]	**6.8**	**91.8**
Operating (loss)/profit	**(14.7)**	**64.2**
(Loss)/profit before taxation	**(12.9)**	**64.1**
Cash	**177.7**	**224.0**
Net assets	**284.0**	**288.0**

[1] Funding Circle research in partnership with Oxford Economics.
[2] Net investment income comprises investment income less investment expense.
[3] 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:

- Originations of £1.5bn (2021: £2.3bn) down 35% year-on-year but in line with expectations following the peak of the government-guaranteed loan schemes in H1 21.
- Both H1 and H2 22 originations up on H2 21, but reduced in H2 22 from H1 22 following credit tightening in response to the more challenging UK economic environment.
- Loans under management of £3.7bn (31 December 2021: £4.5bn) down 16% following anticipated early repayments of CBILS loans in UK and PPP loan forgiveness in US.
- Operating income was £131.4m (2021: £165.5m) down 21% against the high levels of income from government-guaranteed loan schemes in 2021. 2021 also included £2.1m of deferred PPP revenue.
- Investment income was £17.3m (2021: £41.4m) down by 58%, as expected, as investments have either been sold or amortised down.
- Fair value gain of £4.8m (2021: £28.6m gain) reflects continued positive revaluations for improved underlying credit performance.
- AEBITDA of £6.8m (2021: £91.8m) and operating loss of £14.7m (2021: profit of £64.2m) reflect the reduction in net income following the closure of the government-guaranteed loan schemes.
- Net assets remain healthy at £284.0m (31 December 2021: £288.0m), including cash balance of £177.7m (31 December 2021: £224.0m), of which £165.7m (31 December 2021: £199.4m) was unrestricted[4].

Operating and Strategic Summary:

- **We are delivering against our medium-term plan which brings significant growth opportunities in a large addressable market:**
    - In March 2022, 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 enabling SMEs to borrow, pay and spend.
    - A year into this plan, we are delivering against our strategic pillars:
        - **Attract more businesses:** *strengthening existing distribution channels and expanding into new embedded and intermediated channels to enable more businesses to reach us*
            - Launched two Lending as a Service pilot partnerships, with Pitney Bowes and DreamSpring in the US.
            - Developed our distribution partnerships in UK and US.
            - Launched our first sports sponsorship with Premiership Rugby to drive brand awareness and consideration.
        - **Say yes to more businesses:** *serving more businesses through an expanded set of personalised Funding Circle products and further integration with third party lenders*
            - Expanded US Loans proposition to serve super prime businesses.
            - Expanded UK Loans proposition to include near prime lending.
            - Increased Marketplace originations with lending up 24% y-o-y.
        - **#1 in new products:** *using our capabilities to enter new markets where we can develop market-leading products*
            - SME B2B payments represents a new major market opportunity.
            - FlexiPay rolled out to additional customer segments during 2022, with strong growth trajectory and high customer engagement: >3x growth in cumulative transaction value H1 22 to H2 22; ~£60m total transactions in FY 22 (£3.5m FY 21); > 2,000 active accounts at end FY 22 (c.250 FY 21); >20,000 transactions to date; 1.4 transactions per month per active customer.
            - FlexiPay card launched in beta at the end of 2022.

[4] 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 and is payable to third parties.

Outlook:

We have introduced guidance for FY 23, updated our medium-term guidance for FY 25 and included FlexiPay guidance for the first time, as shown below.

	FY 23 Expectation of challenging UK economic environment in FY 23		**Medium Term (FY 25)** Group to double total income by FY 25 (incl. FlexiPay); Prior UK medium-term guidance delayed by one year[5]		
	UK and US Loans	**FlexiPay**	**UK Loans[5]**	**US Loans**	**FlexiPay**
Total income	£150m - £160m *Continued momentum in US, broadly flat in UK*	Over £10m	At least £175m	At least £70m	At least £50m
AEBITDA	£0-10m	£(10-20)m *FY 23 investment into FlexiPay, AEBITDA loss dependent on speed we choose to scale*	Margins of 25-30%	AEBITDA positive	AEBITDA positive

Analyst presentation:

Management will host an analyst and shareholder presentation and conference call at 9:30am UK time (GMT), on Thursday 2 March 2023, including an opportunity to ask questions.

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

For conference call access, with the opportunity to ask live questions, please dial +44 33 0551 0200 or +1 786 697 3501. Quote Funding Circle Full Year Results if prompted.

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

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About Funding Circle:

Funding Circle (LSE: FCH) is a lending platform for SME 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 extended more than £15bn in credit to c.135,000 businesses.

For SME borrowers, Funding Circle provides an unrivalled customer experience, delivered through its technology and data, coupled with a human touch. Its solutions continue to help customers access the funding they need to succeed. For institutional investors, Funding Circle provides access to an alternative asset class in an underserved market, and delivers robust and attractive returns.

[5] Previous UK FY 25 guidance of total income £220m and AEBITDA margins of 30-35%.

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 unrivalled customer experience powered by data and technology, coupled with a human touch. We have now helped more than 135,000 SMEs to access more than £15 billion. Over the past 12 years, we've revolutionised SME lending and built the capability for SMEs in the UK to receive an instant lending decision. This is a first in SME term lending.

We have an attractive and proven business model:

- Loan returns remain robust and attractive. This reflects the quality of Funding Circle underwriting with three times better risk discrimination than bureau scores.
- Our proven model has been demonstrated through the cycle as seen by the strength of our loan returns.
- We continue to take a prudent approach to originations and adjusted borrower pricing to reflect the rising base rate environment.
- We continue to see institutional investor demand to fund loans with new forward flow agreements in the UK and US.

Our world-class technology continues to deliver a superior customer experience:

- We are reinventing SME lending through technology and data, coupled with a human touch.
- Our world-class tech platform delivers significant customer benefits and creates a deep moat around our business. As we continue to grow, we feed the Funding Circle flywheel:
  - **Attract more borrowers:** Funding Circle is revolutionising SME lending and delivering a superior customer experience resulting in strong satisfaction scores and high repeat rates.
  - **Accumulate more data:** As we attract more customers to our platform we augment our data lake – which has more than 2 billion data points on 29 million SMEs across the UK and US.
  - **Develop better machine learning models:** Our data enables us to build accurate and predictive risk models. In the UK, our 8th generation models are three times better at risk discrimination than traditional bureau scores, optimising access whilst delivering strong loan returns.
  - **Say yes to more businesses:** Our decision engine generates personalised customer journeys, pricing and propositions which help to increase conversion.
  - **Greater operating leverage:** Automation delivers lower processing costs and scalability. As we grow we deliver increased margins from leveraging the platform.
  - **New products:** The strength of our customers, our technology and our platform enables us to offer new products and capabilities to meet more customer needs. These generate deeper relationships with our existing customers and help attract new customers.

Overview of the year ended 31 December 2022

Against a backdrop of an increasingly challenging UK economic environment, our overall performance in 2022 was in line with our expectations. It followed a very strong prior year when our markets were distorted by the continued availability of various government-guaranteed loan schemes in both the UK and US which brought forward and exaggerated demand for loans by SMEs in H1 21. This led to a drop in demand for loans when these government schemes concluded, with a gradual recovery in demand evident through H2 21 and H1 22. In mid-2022, through our proactive monitoring, we noticed increasing signs of stress in the market and we therefore adjusted and tightened our credit criteria accordingly. This tightening is noticeable in the UK originations profile below.

Originations			**2022**			2021
	H1	**H2**	**FY**	H1	H2	FY
	£m	**£m**	**£m**	£m	£m	£m
Loans						
United Kingdom	**641**	**454**	**1,095**	1,381	591	1,972
United States	**145**	**182**	**327**	247	69	316
Other[6]	**-**	**-**	**-**	7	1	8
	786	**636**	**1,422**	1,635	661	2,296
FlexiPay[7]	**17**	**42**	**59**	-	-	-
Total	**803**	**678**	**1,481**	1,635	661	2,296

In the UK, the government-guaranteed Recovery Loan Scheme ("RLS") was introduced in April 2021 and operated until May 2022. We continued to offer our commercial loans alongside the RLS, transitioning to operate solely our commercial lending from June 2022 onwards. We now also offer our commercial loans to near prime businesses. In the prior year, we offered government-guaranteed CBILS loans until the processing of those loans finished in June

[6] Other represents the previously presented Developing Markets segment. As this business has been closed and is in wind-down it has been renamed Other for segmental purposes.
[7] Given the size, FlexiPay loans of £4m were not presented in 2021.

2021. CBILS had particularly high levels of demand, due to the favourable terms for borrowers, driving peak originations in H1 21.

In the US, we have continued to offer our commercial loan product, expanding our offering to also serve super prime businesses. In the first half of 2021, we operated the Paycheck Protection Program ("PPP") government-guaranteed loan scheme through the Small Business Administration ("SBA") which closed in May 2021.

During 2022, we have continued to grow originations via our Marketplace which connects 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, and we see this growing further in the coming year.

Our new line of credit product offering, FlexiPay, has been launched in the market and continues to gain traction. FlexiPay card is now in beta testing and we will continue to expand this during 2023. We remain very excited about the huge market opportunity for FlexiPay to support SMEs with their shorter-term financial needs.

Characteristics of government loan schemes

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

- CBILS – for loans issued under this scheme, the British Business Bank ("BBB") provided an 80% guarantee to lenders, should the loan default, in exchange for a fee from the funding investors. The BBB paid the origination fees (transaction fees) on behalf of borrowers together with the interest due on the loans for the first year. No principal repayments were required in the first year. Thereafter borrowers pay the interest and principal repayments. Funding investors continue to pay servicing fees.
- RLS – for loans under this scheme, the BBB continued to provide a guarantee to lenders to ensure that there was sufficient availability from lenders to support SMEs, again in exchange for a fee from the funding investors (which in Funding Circle's case, as with CBILS, was shared proportionately among Funding Circle and its applicable funding investors, with Funding Circle's share of both the loan amounts and fees being approximately 1% of the total). The loans then had characteristics similar to our core commercial loan product with borrowers paying the origination fees, interest and repayments and funding investors paying the servicing fees. However, the borrower, not the BBB, pays the fees and interest in the first year.
- PPP – the loans issued under the PPP scheme have very different characteristics to those under CBILS or RLS. Under this scheme, Funding Circle earns an origination fee, paid by the SBA, but there are no servicing fees associated with the loans. This is because borrowers are allowed to apply for the loans to be forgiven by the SBA if the funds are used to pay eligible expenses such as payroll costs of employees.

Loans under Management (LuM)	**31 December 2022**	31 December 2021
	£m	£m
Loans		
United Kingdom	**3,311**	3,944
United States	**375**	425
Other	**39**	88
	3,725	4,457
FlexiPay[1]	**18**	-
Total	**3,743**	4,457

1. Given the size, FlexiPay loans of £2m were not presented in 2021

Loans under management declined during the year by 16% to £3,743m. This was principally driven by:

- Early repayments on CBILS loans which were 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 were forgiven by the US government, provided certain borrower conditions on usage were satisfied. No servicing fees are charged on PPP loans. PPP loans totalled £125m at 31 December 2021 reducing to £28m by 31 December 2022.
- FlexiPay loans under management continued to grow. Currently the product features a revolving three-month line of credit facility.

Funding Circle uses its balance sheet where it makes the business stronger. This has been through securitisation programmes and private funds in 2019/20, co-investing as required by the government-guaranteed loan schemes, short-term funding as we onboard new investors, and in funding the early stages of FlexiPay. At 31 December 2022, Funding Circle's equity invested in the above Loans under Management was c.2.5% at £97m (31 December 2021: c.1.5% at £70m). This is described in further in "Balance sheet and investments" below.

Segmental highlights

Net income/(loss)

	31 December 2022					31 December 2021				
	Loans			**FlexiPay**	**Total**	Loans			FlexiPay	Total
	United Kingdom £m	**United States £m**	**Other £m**	**United Kingdom £m**	**£m**	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
Operating income	**107.2**	**21.1**	**1.6**	**1.5**	**131.4**	137.7	25.1	2.7	-	165.5
Net investment income	**9.8**	**7.5**	**-**	**-**	**17.3**	21.7	19.7	-	-	41.4
Total income	**117.0**	**28.6**	**1.6**	**1.5**	**148.7**	159.4	44.8	2.7	-	206.9
Fair value (losses)/gains	**(2.4)**	**7.2**	**-**	**-**	**4.8**	10.5	18.1	-	-	28.6
Net income	**114.6**	**35.8**	**1.6**	**1.5**	**153.5**	169.9	62.9	2.7	-	235.5
Segment profit										
Adjusted EBITDA	**11.7**	**(3.7)**	**2.8**	**(4.0)**	**6.8**	61.9	28.4	1.5	-	91.8
Depreciation and amortisation	**(11.7)**	**(5.2)**	**(0.1)**	**-**	**(17.0)**	(9.7)	(4.1)	(0.1)	-	(13.9)
Share-based payments and social security costs	**(3.9)**	**(0.8)**	**-**	**-**	**(4.7)**	(7.6)	(1.3)	-	-	(8.9)
Foreign exchange gains/(losses)	**0.2**	**-**	**-**	**-**	**0.2**	(0.3)	(0.6)	-	-	(0.9)
Exceptional items	**-**	**-**	**-**	**-**	**-**	-	(3.9)	-	-	(3.9)
Operating (loss)/profit	**(3.7)**	**(9.7)**	**2.7**	**(4.0)**	**(14.7)**	44.3	18.5	1.4	-	64.2
Operating AEBITDA[8]	***4.3***	***(18.4)***	***2.8***	***(4.0)***	***(15.3)***	*29.7*	*(9.4)*	*1.5*	*-*	*21.8*
Investment AEBITDA[8]	***7.4***	***14.7***	***-***	***-***	***22.1***	*32.2*	*37.8*	*-*	*-*	*70.0*

United Kingdom

During the year we continued to originate loans under RLS until the scheme ended in June 2022 as well as providing commercial loans throughout the year. As expected, we experienced slower initial demand when the RLS scheme ended, consistent with CBILS ending, as both schemes brought forward the appetite for SMEs to take out loans.

Demand has largely returned, although general credit quality has weakened and accordingly our conversion levels are lower than they were before the pandemic. With the increasing economic uncertainty in the UK, we tightened our credit criteria in July 2022 and introduced interest rate increases on our loans (which are all fixed rate) to align with increasing base rates.

Throughout 2022 there remained strong appetite from institutional investors to invest in both the RLS and commercial loans. Four forward flow agreements were signed totalling £2.4bn and an additional material forward flow agreement was signed in January 2023.

As previously reported, investment from retail investors was closed at the start of the pandemic as they were not allowed to participate in the government loan schemes. We closed the retail platform to new investment altogether in March 2022 and retail investors now represent only 2% of the overall LuM.

The UK delivered total income of £117.0m (2021: £159.4m) with operating income of £107.2m (2021: £137.7m) and net investment income of £9.8m (2021: £21.7m).

The reduction in operating income was largely driven by lower volumes of originations, partially offset by higher servicing fees (reflecting higher LuM experienced during the peak of CBILS lending in early 2021).

The reduction in net investment income resulted from a reduction in the SME loans held on balance sheet. This was driven by the exit of the UK warehouse in November 2021, loans continuing to be paid down, and the wind down and subsequent sale in 2022 of the majority of loans held in the UK securitisation vehicle.

The UK generated operating AEBITDA of £4.3m, lower than the £29.7m of the prior year when CBILS was operating. Total AEBITDA was £11.7m (2021: £61.9m) with an AEBITDA margin of 10%. Operating loss was £3.7m (2021: profit of £44.3m). The reduction in both total AEBITDA and operating profit was driven by the lower levels of income generated post CBILS and reduced investment AEBITDA.

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

United States

The US transitioned away from government-guaranteed loans in May 2021. We restarted commercial lending in July 2021, and although demand started at a low level this has gradually and consistently increased month on month. We also see continued demand from institutional investors to lend although, with increasing economic uncertainty and rising base rates, concluding funding deals with institutions is taking longer. We anticipate adding further new institutional investors during 2023.

In H2 2022, we funded c.£20m of originations directly whilst concluding a major funding deal which was signed shortly after the year-end. The majority of these loans were sold in February 2023.

Originations for the year were £327m in 2022 (2021: £316m). Originations have continued to grow since PPP ceased in May 2021 with H2 2022 originations of £182m (H1 2022: £145m; H2 2021: £69m).

Total income for the US was £28.6m (2021: £44.8m) comprising operating income of £21.1m (2021: £25.1m) and net investment income of £7.5m (2021: £19.7m). Yields on PPP loans were nearly 40% higher than those on commercial loans, driving the fall in operating income relative to originations year on year.

Similar to the UK, the reduction in investment income reflects the amortising nature of the investment in SME loans held on balance sheet. Additionally, 2021 benefited from six months of interest on the US warehouse which was sold in June 2021.

Operating AEBITDA was negative £18.4m (2021: negative £9.4m). Investment AEBITDA was £14.7m (2021: £37.8m) principally reflecting the amortising loan book and warehouse sold in June 2021 together with large fair value gains in 2021 following the investments delivering strong returns, lower levels of default and an improved economic outlook at that time.

Total AEBITDA was negative £3.7m (2021: positive £28.4m) and operating loss was £9.7m (2021: profit of £18.5m).

Summary Financial Information

			2022			**2021**
	H1	H2	**FY**	H1	H2	**FY**
	£m	£m	**£m**	£m	£m	**£m**
Originations	803	678	**1,481**	1,635	661	**2,296**
Loans under Management (LuM)	4,071	3,743	**3,743**	4,933	4,457	**4,457**
Operating income	66.4	65.0	**131.4**	94.5	71.0	**165.5**
Net investment income	10.9	6.4	**17.3**	26.1	15.3	**41.4**
Total income	77.3	71.4	**148.7**	120.6	86.3	**206.9**
Fair value gains	1.5	3.3	**4.8**	8.1	20.5	**28.6**
Net income	78.8	74.7	**153.5**	128.7	106.8	**235.5**
AEBITDA	10.6	(3.8)	**6.8**	53.3	38.5	**91.8**
Operating profit/(loss)	1.5	(16.2)	**(14.7)**	35.5	28.7	**64.2**
Profit/(loss) before taxation	1.6	(14.5)	**(12.9)**	35.4	28.7	**64.1**
Cash	200.7	177.7	**177.7**	168.1	224.0	**224.0**
Net assets	299.3	284.0	**284.0**	254.1	288.0	**288.0**

Finance review

Overview

Group total income was £148.7m (2021: £206.9m), down 28%, and net income was £153.5m (2021: £235.5m).

Net income is total income plus fair value movements on SME loans held for sale and investments in trusts. The fair value gain in 2021 reflected a strong performance from the consolidated SME loans with lower defaults and higher recoveries than expected.

The Group's operating loss was £14.7m for the year (2021: profit of £64.2m).

Profit and loss

	31 December 2022	31 December 2021		
	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Transaction fees	**77.5**	115.0	-	115.0
Servicing fees	**47.9**	47.0	-	47.0
Interest income	**1.9**	-	-	-
Other fees	**4.1**	3.5	-	3.5
Operating income	**131.4**	165.5	-	165.5
Investment income	**22.0**	53.7	-	53.7
Investment expense	**(4.7)**	(12.3)	-	(12.3)
Total income	**148.7**	206.9	-	206.9
Fair value gains	**4.8**	28.6	-	28.6
Net income	**153.5**	235.5	-	235.5
People costs	**(85.9)**	(77.7)	-	(77.7)
Marketing costs	**(38.4)**	(46.9)	-	(46.9)
Depreciation, amortisation and impairment	**(17.0)**	(13.9)	(3.9)	(17.8)
Expected credit loss credit/(charge)	**1.5**	(1.2)	-	(1.2)
Other costs	**(28.4)**	(27.7)	-	(27.7)
Operating expenses	**(168.2)**	(167.4)	(3.9)	(171.3)
Operating (loss)/profit	**(14.7)**	68.1	(3.9)	64.2

Operating income includes transaction fees, servicing fees, interest income from loans held at amortised cost and other fees and was £131.4m (2021: £165.5m).

- *Transaction fees*, representing fees earned on originations, decreased to £77.5m (2021: £115.0m). The overall decrease in transaction fees was driven by lower trading volumes as the Group transitioned away from the government-guaranteed loan schemes in the UK and the US.

  In line with increasing base rates, our average origination fee yields grew in the UK to c.5.5% (2021: 4.7%); yields on CBILS loans in the prior year were fixed at 4.75%. Yields in the US averaged 4.6% with varying but higher yields experienced in the prior year as PPP loans had higher yields on small loan amounts.

- *Servicing fees*, representing income for servicing Loans under Management, were £47.9m (2021: £47.0m). Whilst Loans under Management have fallen in 2022, it peaked at the end of the CBILS lending in June 2021 and, with yields on CBILS, RLS and UK commercial loans at c.1.25% (higher than the c.1.0% of older loan cohorts), servicing fees remained similar to 2021 levels. There is no servicing fee earned on PPP loans.

- *Interest income* represents interest earned on loans held at amortised cost. This predominantly relates to FlexiPay, where we charged a flat 3% fee in 2022 which is spread over three months, in line with borrower repayments.

- *Other fees* arose principally from collection fees we recovered on defaulted loans and from fee premiums we received from certain institutional investors in the year in respect of buying back certain defaulted loans under a historical loan purchase commitment.

Net investment income represents the investment income, less investment expense, on loans within Funding Circle's investment vehicles and was £17.3m (2021: £41.4m). This decline followed the sale of US and UK warehouses in June 2021 and November 2021 respectively, together with the effect of continued amortisation on the remaining consolidated loans.

The Group took the opportunity to simplify the balance sheet and wound up the UK securitisation (SBOLT-19) in June 2022, subsequently selling the majority of the remaining loans in October 2022. Additionally, we wound up one of the US securitisations (SBIZ-19A) in October 2022 and anticipate doing the same for the remaining US securitisation vehicle (SBIZ-20A) during 2023.

Net income, defined as total income after fair value adjustments, was £153.5m (2021: £235.5m). This reflects the reduction in operating income from the higher levels in 2021 when CBILS was operating together with a reduction in net investment income.

The fair value gain in 2021 reflected a strong performance from the consolidated SME loans with an improved economic outlook, lower defaults and higher recoveries than expected. The consolidated SME loans have continued to perform well, and ahead of our expectations in 2022, however, due to the amortising nature of the remaining loan book, loan sales that have occurred and higher discount rates (affected by higher base rates) utilised in valuations, the total fair value gains are much lower than 2021.

Operating expenses

At an overall level, operating expenses were in line with 2021, with increased people costs (driven by increased headcount and inflation) being largely offset by reduced marketing spend (driven particularly by the effect of reduced originations on broker commission levels).

People costs (including contractors), which represent the Group's largest ongoing operating cost, increased during the year by 15% to £98.4m (2021: £85.9m), before the capitalisation of development spend. This was driven by an overall headcount rise of 10%, largely due to increased investment in the technology and FlexiPay teams, and wage inflation.

The share-based payment charge for the year, included in people costs, was £4.7m (2021: £8.9m) with the reduction driven predominantly by lapses of share awards from leavers.

	31 December 2022 £m	31 December 2021 £m	Change %
People costs	**98.4**	85.9	15
Less capitalised development spend ("CDS")	**(12.5)**	(8.2)	52
People costs net of CDS	**85.9**	77.7	11
Average headcount (incl. contractors)	**1,035**	929	11
Year-end headcount (incl. contractors)	**1,075**	979	10

Marketing costs reduced in the year to £38.4m (2021: £46.9m) driven by lower broker commissions from reduced origination volumes, together with strong cost control from spend optimisation. Marketing spend overall was 29% of operating income (2021: 28%) with the Group investing more in above the line marketing channels (direct mail and online) which were required less when the government schemes were operating.

Depreciation, amortisation and impairment costs of £17.0m (2021: £17.8m) largely represent the amortisation of the cost of the Group's capitalised technology development and the depreciation and impairment of right-of-use assets related to the Group's office leases. The Group incurred a write down of £1.8m (2021: £3.9m) on its San Francisco office and associated assets.

Balance sheet and investments

The Group's net equity was £284m at 31 December 2022 (31 December 2021: £288m). This reduction reflects the Group's operating losses and the purchase of own shares by the Employee Benefit Trust ("EBT") offset by foreign exchange gains on its US business and the recognition of deferred tax assets.

The majority of the Group's balance sheet is represented by cash and equity invested as shown below. The equity invested is in certain SME loans, either directly or through investment vehicles, and in the FlexiPay lines of credit.

	Operating business		**Investment business**					**31 December 2022**	31 December 2021
	Trading business[1]	**FlexiPay**	**Securitisation SPVs**	**Securitisation loan buyout**	**US funding loans[2]**	**CBILS/RLS/ Commercial**	**Private funds**	**Total**	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	£m
SME loans	24.8	16.0	27.3	18.5	19.8	32.2	2.7	141.3	273.8
Cash and cash equivalents	174.9	-	2.8	-	-	-	-	177.7	224.0
Other assets/(liabilities)	-	-	0.9	-	-	-	-	0.9	(0.5)
Borrowings/bonds	(22.6)	-	(23.7)	-	-	-	-	(46.3)	(213.5)
Cash and net investments	**177.1**	**16.0**	**7.3**	**18.5**	**19.8**	**32.2**	**2.7**	**273.6**	283.8
Other assets	64.1	-	-	-	-	-	-	64.1	67.9
Other liabilities	(53.7)	-	-	-	-	-	-	(53.7)	(63.7)
Equity	**187.5**	**16.0**	**7.3**	**18.5**	**19.8**	**32.2**	**2.7**	**284.0**	288.0

[1] Trading business includes £22.4m of PPP loans together with the associated Federal Reserve borrowings which we expect will both reduce as the remaining PPP loans are forgiven.
[2] US funding loans includes £19.8m of loans funded temporarily whist it was onboarding a new investor. The majority of these were sold in February 2023.

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

Investment in product/vehicles	**31 December 2022 £m**	31 December 2021 £m
1. Securitisation SPVs [1]	**7**	21
2. CBILS/RLS/Commercial [1]	**32**	39
3. Securitisation loan buyout	**19**	-
4. Private funds	**3**	8
5. US funding loans	**20**	-
Net investment equity	**81**	68
6. FlexiPay	**16**	2
Total net equity	**97**	70

[1] These vehicles are bankruptcy remote

1. *Securitisation SPVs* – This relates to the investment in securitisation vehicles. During 2022, the Group called options to wind down UK (SBOLT-19A) and US (SBIZ-19A) securitisations and bought out the remaining bondholders. The Group retains legacy securitisation loans of £19m, and these are presented in "3. Securitisation loans buyout" above.

2. *CBILS/RLS/Commercial* – As part of our participation in the CBILS and RLS UK government loan schemes, 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 have increased 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.

3. *Securitisation loan buyout* – This relates to loans held following the closure of certain consolidated securitisation SPVs of £19m.

4. *Private funds* – There are a small amount of other loans, comprising seed investments in private funds held as associates.

5. *US funding loans* – £20 million of loans in the US where we directly funded the loans for a brief period whilst finalising a funding deal. The majority of these loans were sold in February 2023.

6. *FlexiPay* – This relates to FlexiPay drawn lines of credit.

Cash flow

At 31 December 2022, the Group held cash and cash equivalents of £177.7m (31 December 2021: £224.0m). Of this balance £165.6m (31 December 2021: £199.4m) is unrestricted in its use.

Total cash has reduced by £46.3m. £27.0m of this decrease was driven by increased equity investment. The remainder of the reduction was due largely to the funding of our US and FlexiPay operations and the purchase of own shares by the EBT, offset by foreign exchange gains on cash held in the US business.

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 FlexiPay lines of credit. The Directors view this as a key liquidity measure and it is the net amount of cash used or generated to operate and develop the Group's platform each year.

Free cash flow reduced in 2022 due to lower AEBITDA and large working capital movements associated with CBILS where £27m of fees were received early in 2021 relating to 2020 originations.

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

	2022 £m	2021 £m
Adjusted EBITDA	**6.8**	91.8
Fair value adjustments	**(4.8)**	(28.6)
Purchase of tangible and intangible assets	**(13.9)**	(9.4)
Payment of lease liabilities	**(6.1)**	(7.9)
Working capital/other	**3.6**	36.9
Free cash flow	**(14.4)**	82.8
Net distributions from associates	**5.4**	3.9
Net movement in trusts and co-investments	**3.6**	(18.8)
Net originations of lines of credit	**(16.0)**	(1.6)
Net movement in other SME loans	**(22.4)**	(0.4)
Net movement in warehouses and securitisation vehicles	**-**	53.4
Purchase of own shares	**(8.7)**	-
Other	**2.4**	0.5
Effect of foreign exchange	**3.8**	0.9
Movement in the year	**(46.3)**	120.7
Cash and cash equivalents at the beginning of the year	**224.0**	103.3
Cash and cash equivalents at the end of the year	**177.7**	224.0

Statement of Director’s responsibilities

The Funding Circle Report and Accounts for year end 31 December 2022 contains a responsibility statement in the following form:

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

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

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

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

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

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

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

By order of the Board

Lisa Jacobs, Chief Executive Officer

Oliver White, Chief Financial Officer

02 March 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	**31 December 2022 £m**	31 December 2021 Before exceptional items £m	Exceptional Items[1] £m	31 December 2021 £m
Transaction fees		**77.5**	115.0	—	115.0
Servicing fees		**47.9**	47.0	—	47.0
Interest income[2]		**1.9**	—	—	—
Other fees		**4.1**	3.5	—	3.5
Operating income		**131.4**	165.5	—	165.5
Investment income		**22.0**	53.7	—	53.7
Investment expense		**(4.7)**	(12.3)	—	(12.3)
Total income		**148.7**	206.9	—	206.9
Fair value gains/(losses)		**4.8**	28.6	—	28.6
Net income	2	**153.5**	235.5	—	235.5
People costs	3, 5	**(85.9)**	(77.7)	—	(77.7)
Marketing costs	3	**(38.4)**	(46.9)	—	(46.9)
Depreciation, amortisation and impairment	3	**(17.0)**	(13.9)	(3.9)	(17.8)
Credit/(provision) for expected credit losses[3]	3, 12, 13	**1.5**	(1.2)	—	(1.2)
Other costs	3	**(28.4)**	(27.7)	—	(27.7)
Operating expenses	3	**(168.2)**	(167.4)	(3.9)	(171.3)
Operating (loss)/profit		**(14.7)**	68.1	(3.9)	64.2
Finance income		**2.3**	0.1	—	0.1
Finance costs		**(0.9)**	(1.1)	—	(1.1)
Share of net profit of associates		**0.4**	0.9	—	0.9
(Loss)/profit before taxation		**(12.9)**	68.0	(3.9)	64.1
Income tax credit/(charge)	6	**6.0**	(2.9)	—	(2.9)
(Loss)/profit for the year		**(6.9)**	65.1	(3.9)	61.2
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss:					
Exchange differences on translation of foreign operations		**5.8**	1.4	—	1.4
Total comprehensive (loss)/profit for the year		**(1.1)**	66.5	(3.9)	62.6
Total comprehensive (loss)/profit attributable to:					
Owners of the Parent		**(1.1)**	66.5	(3.9)	62.6
(Loss)/earnings per share					
Basic (loss)/earnings per share	7	**(2.0)p**	18.5p		17.4p
Diluted (loss)/earnings per share	7	**(1.8)p**	17.1p		16.0p

1. Exceptional items are detailed within note 4.
2. Interest income recognised on assets held at amortised cost under the effective interest rate method.
3. The comparative year ended 31 December 2021 has been re-presented to present “credit/(provision) for expected credit losses” which was previously included within “other costs”.

All amounts relate to continuing activities.

Funding Circle

Consolidated balance sheet

as at 31 December 2022

	Note	**31 December 2022 £m**	31 December 2021[1] £m
Non-current assets			
Intangible assets	8	**28.2**	24.9
Property, plant and equipment	9	**10.0**	14.1
Investment in associates		**2.7**	7.6
Investment in trusts and co-investments	13	**28.7**	39.1
SME loans (other)	13	**24.8**	74.2
Deferred tax asset	6	**6.9**	—
Trade and other receivables	10	**3.4**	4.1
		104.7	164.0
Current assets			
SME loans (warehouse)	13	**2.4**	3.2
SME loans (securitised)	13	**45.8**	148.1
SME loans (other)	13	**20.9**	—
Lines of credit	13	**16.0**	1.6
Trade and other receivables	10	**16.5**	25.0
Cash and cash equivalents	14	**177.7**	224.0
		279.3	401.9
Total assets		**384.0**	565.9
Current liabilities			
Trade and other payables	11	**31.8**	36.4
Bonds	13	**23.7**	140.3
Short-term provisions and other liabilities	12	**1.0**	3.4
Lease liabilities	9	**7.2**	6.9
		63.7	187.0
Non-current liabilities			
Long-term provisions and other liabilities	12	**1.1**	0.7
Bank borrowings	13	**22.6**	73.2
Lease liabilities	9	**12.6**	17.0
Total liabilities		**100.0**	277.9
Equity			
Share capital		**0.4**	0.4
Share premium account		**293.1**	293.0
Foreign exchange reserve		**16.9**	11.1
Share options reserve		**22.2**	19.1
Accumulated losses		**(48.6)**	(35.6)
Total equity		**284.0**	288.0
Total equity and liabilities		**384.0**	565.9

1. The comparative year as at 31 December 2021 has been re-presented to present FlexiPay drawn lines of credit within “lines of credit” which was previously included within “SME loans (other)”.

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	(Accumulated losses)/ retained earnings £m	Total equity £m
Balance at 1 January 2021		0.3	292.6	9.7	13.6	(98.6)	217.6
Profit for the year		—	—	—	—	61.2	61.2
Other comprehensive income							
Exchange differences on translation of foreign operations		—	—	1.4	—	—	1.4
Total comprehensive income		—	—	1.4	—	61.2	62.6
Transactions with owners							
Transfer of share option costs		—	—	—	(1.8)	1.8	—
Issue of share capital		0.1	0.4	—	—	—	0.5
Employee share schemes – value of employee services		—	—	—	7.3	—	7.3
Balance at 31 December 2021		0.4	293.0	11.1	19.1	(35.6)	288.0
Loss for the year		—	—	—	—	(6.9)	(6.9)
Other comprehensive income							
Exchange differences on translation of foreign operations		—	—	5.8	—	—	5.8
Total comprehensive income		—	—	5.8	—	(6.9)	(1.1)
Transactions with owners							
Transfer of share option costs		—	—	—	(2.6)	2.6	—
Purchase of own shares held in employee benefit trust		—	—	—	—	(8.7)	(8.7)
Issue of share capital		—	0.1	—	—	—	0.1
Employee share schemes – value of employee services		—	—	—	5.7	—	5.7
Balance at 31 December 2022		**0.4**	**293.1**	**16.9**	**22.2**	**(48.6)**	**284.0**

Consolidated statement of cash flows

for the year ended 31 December 2022

	Note	**31 December 2022 £m**	31 December 2021 £m
Net cash (outflow)/inflow from operating activities	14	**(10.4)**	98.5
Investing activities			
Purchase of intangible assets	8	**(12.7)**	(8.6)
Purchase of property, plant and equipment	9	**(1.2)**	(0.8)
Originations of SME loans (other)[1]	13	**(24.0)**	(209.9)
Cash receipts from SME loans (other)[1]	13	**59.5**	161.7
Cash receipts from SME loans (warehouse phase)	13	**2.8**	58.6
Proceeds from sale of SME loans (warehouse phase)	13	**—**	176.1
Cash receipts from SME loans (securitised)	13	**86.8**	150.2
Proceeds from sale of SME loans (securitised)	13	**39.5**	—
Investment in trusts and co-investments	13	**(6.4)**	(22.1)
Cash receipts from investments in trusts and co-investments	13	**10.0**	3.3
Redemption in associates		**5.1**	3.9
Dividends from associates		**0.3**	—
Interest received		**2.3**	0.1
Net cash inflow from investing activities		**162.0**	312.5
Financing activities			
Proceeds from bank borrowings	13	**—**	208.2
Repayment of bank borrowings	13	**(57.9)**	(331.3)
Payment of bond liabilities	13	**(129.1)**	(160.6)
Proceeds from the exercise of share options		**0.1**	0.4
Proceeds from subleases		**1.2**	0.2
Purchase of own shares		**(8.7)**	—
Payment of lease liabilities	9	**(7.3)**	(8.1)
Net cash outflow from financing activities		**(201.7)**	(291.2)
Net (decrease)/ increase in cash and cash equivalents		**(50.1)**	119.8
Cash and cash equivalents at the beginning of the year		**224.0**	103.3
Effect of foreign exchange rate changes		**3.8**	0.9
Cash and cash equivalents at the end of the year	14	**177.7**	224.0

1. As disclosed in note 1, FlexiPay drawn lines of credit have been re-presented within "Origination of/cash receipts from lines of credit" within cash flows from operating activities and were previously presented within "Origination of/ cash receipts from SME loans (other)" in cash flows from investing activities in the year ended 31 December 2021.

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

Funding Circle

Notes forming part of the consolidated financial statements

for the year ended 31 December 2022

1. Basis of preparation

The results for the year ended 31 December 2022 have been extracted from the audited financial statements of Funding Circle Holdings plc. The Group presents its annual financial statements in conformity with United Kingdom laws and regulations.

The financial information in this statement does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2022, on which the auditors have given an unqualified audit report, have not yet been filed with the Registrar of Companies.

The preparation of financial statements requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 16.

Except as described below in note 15, the principal accounting policies applied in the preparation of the consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2021, as described in those financial statements.

Re-presentation of comparative information

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

Through FlexiPay, borrowers are provided with a facility which can be drawn to pay invoices and expenses, and are subsequently repaid over three months. A fee of 3% was charged in 2022 on the drawn amount which is recognised over the three-month life of the drawdown in interest income under the effective interest rate method. The accounting policy regarding FlexiPay is outlined in note 15.

As outlined later, the loans are measured at amortised cost. As FlexiPay will continue to become a larger part of the Group's business, this has been disclosed as a separate segment within note 2. As a result the Group has presented FlexiPay under 'lines of credit' in the balance sheet and reclassified the comparative which was previously presented in 'investment in SME loans (other)' and cash flows have been re-presented within "Origination of/cash receipts from lines of credit" within cash flows from operating activities and were previously presented within "Origination of/ cash receipts from SME loans (other)" in cash flows from investing activities in the year ended 31 December 2021.

Additionally, the comparative year ended 31 December 2021 has been re-presented to present "credit/(provision) for expected credit losses" which was previously presented within "other costs".

Going concern

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

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

The Group made a total comprehensive loss of £1.1m during the year ended 31 December 2022 (2021: profit of £62.6m). As at 31 December 2022, the Group had net assets of £284.0m (2021: £288.0m). This includes £177.7m of cash and cash equivalents (2021: £224.0m) of which £12.1m (2021: £24.6m) is held within the securitisation vehicles or for other specific purposes and is restricted in use. Additionally, within the net assets, the Group holds £96.5m (2021: £69.7m) of invested capital, some of which is capable of being monetised if liquidity needs arise.

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

The base case scenario assumes:

- continued growth in origination of the Group's commercial lending product until June 2024;
- there remains macroeconomic stress in 2023 from inflation, and supply chain pressures with a peak in defaults, which gradually de-stress in the following years;
- no extensions or new government schemes that the Group participated in;
- the rollout of the new FlexiPay product using the Group's balance sheet to fund it; and
- costs and headcount grow modestly with the new product and with investment in technology.

Management prepared a severe but plausible downside scenario in which:

- further macroeconomic volatility continues through the period with increased inflation and interest rates reducing originations and increasing costs;
- investment returns reduce owing to increased funding costs, widening discount rates and deterioration in loan performance;

- an operational event occurs requiring a cash outlay; and
- a downside loss scenario is applied to Funding Circle's on-balance sheet investment in SME loans resulting in higher initial fair value losses and lower cash flows to the investments it owns.

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

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

2. Segmental information

IFRS 8 Operating Segments requires the Group to determine its operating segments based on information which is used internally for decision making. Based on the internal reporting information and management structures within the Group, it has been determined that there are four operating segments, three of which are loans businesses arranged geographically consistent with the prior year and the fourth which is a line of credit business, FlexiPay, based in the United Kingdom.. 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 are as shown in the table below. The other 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 FlexiPay and has been disclosed separately for the first time for the year to 31 December 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 4). Together with operating profit/loss, adjusted EBITDA is a key measure of Group performance as it allows better comparability of the underlying performance of the business. 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

	31 December 2022					31 December 2021				
	Loans			**FlexiPay**	**Total**	Loans			FlexiPay	Total
	United Kingdom £m	**United States £m**	**Other £m**	**United Kingdom £m**	**£m**	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
Total income	**117.0**	**28.6**	**1.6**	**1.5**	**148.7**	159.4	44.8	2.7	—	206.9
Fair value gains/(losses)	**(2.4)**	**7.2**	**—**	**—**	**4.8**	10.5	18.1	—	—	28.6
Net income	**114.6**	**35.8**	**1.6**	**1.5**	**153.5**	169.9	62.9	2.7	—	235.5

Segment (loss)/profit

	31 December 2022					31 December 2021				
	Loans			**FlexiPay**	**Total**			Loans	FlexiPay	Total
	United Kingdom £m	**United States £m**	**Other £m**	**United Kingdom £m**	**£m**	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
Adjusted EBITDA	**11.7**	**(3.7)**	**2.8**	**(4.0)**	**6.8**	61.9	28.4	1.5	—	91.8
Depreciation and amortisation	**(11.7)**	**(5.2)**	**(0.1)**	**—**	**(17.0)**	(9.7)	(4.1)	(0.1)	—	(13.9)
Share-based payments and social security costs	**(3.9)**	**(0.8)**	**—**	**—**	**(4.7)**	(7.6)	(1.3)	—	—	(8.9)
Foreign exchange gains/(losses)	**0.2**	**—**	**—**	**—**	**0.2**	(0.3)	(0.6)	—	—	(0.9)
Exceptional items (note 4)	**—**	**—**	**—**	**—**	**—**	—	(3.9)	—	—	(3.9)
Operating (loss)/profit	**(3.7)**	**(9.7)**	**2.7**	**(4.0)**	**(14.7)**	44.3	18.5	1.4	—	64.2

3. Operating expenses

	31 December 2022	31 December 2021		
	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Depreciation	**5.1**	5.9	—	5.9
Amortisation	**10.1**	8.0	—	8.0
Rental income and other recharges	**(1.0)**	(0.9)	—	(0.9)
Operating lease rentals:				
– Land and buildings	**0.3**	0.1	—	0.1
Employment costs (including contractors)	**85.9**	77.7	—	77.7
Marketing costs (excluding employment costs)	**38.4**	46.9	—	46.9
Data and technology	**9.7**	9.0	—	9.0
Expected credit loss impairment (credit)/charge	**(1.5)**	1.2	—	1.2
Impairment of intangible and tangible assets	**1.8**	—	3.9	3.9
Other expenses	**19.4**	19.5	—	19.5
Total operating expenses	**168.2**	167.4	3.9	171.3

4. Exceptional items

	31 December 2022 £m	31 December 2021 £m
Impairment of non-financial assets (note 9)	**—**	3.9
Total	**—**	3.9

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

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

In 2020, the Group restructured the German and Dutch (Other) businesses to focus on referring loans it originates to local lenders. This restructuring resulted in one-off costs comprising redundancy costs and a related share-based payment credit and impairment on right-of-use assets. Cash payments associated with these items totalled £0.8m in the previous year ended 31 December 2021. See note 12 for movement in associated provisions and note 14 for cash flow.

5. Employees

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

	2022 Number	2021 Number
UK	**686**	632
FlexiPay	**20**	2
US	**177**	155
Other	**10**	15
	893	804

In addition to the employees above, the average monthly number of contractors during the year was 142 (2021: 125).

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

	31 December 2022 £m	31 December 2021 £m
Wages and salaries	**72.2**	61.4
Social security costs	**7.6**	6.2
Pension costs	**1.9**	1.8
Share-based payments	**4.7**	8.9
	86.4	78.3
Contractor costs	**12.0**	7.6
Less: capitalised development costs	**(12.5)**	(8.2)
Employment costs net of capitalised development costs	**85.9**	77.7

6. Income tax (credit)/charge

The Group is subject to all taxes applicable to a commercial company in its countries of operation. The UK (losses)/profits of the Company are subject to UK income tax at the standard corporation tax rate of 19% (2021: 19%).

	31 December 2022 £m	31 December 2021 £m
Current tax		
UK		
Current tax on (losses)/profits for the year	**0.3**	2.7
Adjustment in respect of prior years	**(0.3)**	(0.1)
	—	2.6
US and Other		
Current tax on (losses)/profits for the year	**0.4**	—
Adjustment in respect of prior years	**0.5**	0.3
	0.9	0.3
Total current tax charge	**0.9**	2.9
Deferred tax		
UK		
Deferred tax on (losses)/profits for the year	—	—
Adjustment in respect of prior years	—	—
	—	—
US and Other		
Deferred tax on (losses)/profits for the year	**(6.9)**	—
Adjustments in respect of prior years	—	—
	(6.9)	—
Total deferred tax (credit)	**(6.9)**	—
Total tax (credit)/charge	**(6.0)**	2.9

The above current tax charge represents the expected tax on the Research and Development Expenditure Credit ("RDEC") receivable for 2022 and US state taxes. In the prior year, the tax charge represents the tax liability on the Group's taxable profit and the amount of tax deducted from the RDEC receivable for 2021. The deferred tax credit represents recognition of a deferred tax asset in respect of US losses previously unrecognised.

The Group (credit)/charge for the year can be reconciled to the (loss)/profit before tax shown per the consolidated statement of comprehensive income as follows.

Factors affecting the tax (credit)/charge for the year

	31 December 2022 £m	31 December 2021 £m
(Loss)/profit before taxation	**(12.9)**	64.1
Taxation on (loss)/profit at 19% (2021: 19%)	**(2.4)**	12.2
Effects of:		
Research and development	**0.3**	(0.6)
Effect of foreign tax rates	**0.3**	2.6
Non-taxable/non-deductible expenses	**1.0**	1.8
Movement in deferred tax not recognised	**5.3**	(8.4)
Utilisation of tax losses previously unrecognised	**(4.0)**	(5.9)
Adjustment in respect of prior years	**0.2**	0.1
Deferred tax assets recognised	**(6.9)**	—
Impairment charge and other exceptional items	**0.2**	1.1
Total tax (credit)/charge	**(6.0)**	2.9

The Group is taxed at different rates depending on the country in which the profits arise. The key applicable tax rates include the UK 19%, the US 21%, Germany 30% and the Netherlands 25%. The effective tax rate for the year was (45.85%) (2021: 4.5%).

The statutory UK corporation tax rate is currently 19% (effective 1 April 2020). The UK government announced on 3 March 2021 and confirmed in November 2022 that the rate of corporation tax will be increased to 25% from 1 April 2023.

The Group has recognised a deferred tax liability of £2.8 million (2021: £3.2 million) relating to the property, plant and equipment in the UK. The deferred tax liability is predominantly due to the accelerated capital allowances of £2.8 million (2021: £2.6 million) and in relation to securitisation and warehouse vehicles of the UK which are domiciled in Ireland of £nil (2021: £0.6 million).

A deferred tax asset relating to unrelieved tax losses of £2.8 million (2021: £3.3 million) has been recognised in the UK to the extent of the above mentioned deferred tax liability pursuant to IAS 12 para 74. Deferred tax has been determined using the applicable effective future tax rate that will apply in the expected period of utilisation of the recognised deferred tax assets or liabilities.

The Group has recognised a deferred tax asset of £6.9 million in respect of £32.9 million of the US federal losses.

The Group has utilised tax losses in the US for the first time in 2021 and the Group’s transfer pricing arrangements between the UK and US entitle the US to earn an agreed profit margin. It is probable that the US will be in a profitable position going forwards such that it could use some of its historical federal losses to offset profits.

In determining the amount of losses to recognise as deferred tax assets the Group has used the forecasts applied in the Parent Company impairment testing with regards to the investment in the US business, which will be disclosed in the annual report and accounts for the year ended 31 December 2022. It has then applied probability weightings to those five-year forecasts the further out it projects to reflect greater levels of uncertainty with limited recognition beyond this point.

The estimated amount of deferred tax recognised is not materially sensitive to reasonably possible changes in these assumptions.

7. (Loss)/earnings per share

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

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

The following table reflects the (loss)/profit and share data used in the basic and diluted (loss)/earnings per share computations:

	31 December 2022	31 December 2021
(Loss)/profit for the year (£m)	**(6.9)**	61.2
Basic weighted average number of ordinary shares in issue (million)	**348.6**	351.5
Basic (loss)/earnings per share	**(2.0)p**	17.4p
(Loss)/profit for the year before exceptional items (£m)	**(6.9)**	65.1
Basic weighted average number of ordinary shares in issue (million)	**348.6**	351.5
Basic (loss)/earnings per share before exceptional items	**(2.0)p**	18.5p

(Loss)/profit for the year (£m)	**(6.9)**	61.2
Diluted weighted average number of ordinary shares in issue (million)	**379.5**	381.7
Diluted (loss)/earnings per share	**(1.8)p**	16.0p
(Loss)/profit for the year before exceptional items (£m)	**(6.9)**	65.1
Diluted weighted average number of ordinary shares in issue (million)	**379.5**	381.7
Diluted (loss)/earnings per share before exceptional items	**(1.8)p**	17.1p

Weighted average number of ordinary shares in issue (million)	**348.6**	351.5
Effect of dilutive share options (million)	**30.9**	30.2
Diluted weighted average number of ordinary shares in issue (million)	**379.5**	381.7

8. Intangible assets

	Capitalised development costs £m	Computer software £m	Other intangibles £m	Total £m
Cost				
At 1 January 2021	45.5	0.8	1.1	47.4
Exchange differences	(0.2)	0.1	0.1	—
Additions	8.5	0.1	—	8.6
Disposals	(4.8)	(0.1)	—	(4.9)
At 31 December 2021	49.0	0.9	1.2	51.1
At 1 January 2022	49.0	0.9	1.2	51.1
Exchange differences	1.9	—	—	1.9
Additions	12.7	—	—	12.7
Disposals	(8.8)	(0.1)	—	(8.9)
At 31 December 2022	**54.8**	**0.8**	**1.2**	**56.8**
Accumulated amortisation				
At 1 January 2021	21.3	0.7	1.0	23.0
Exchange differences	(0.1)	—	0.2	0.1
Charge for the year	8.0	—	—	8.0
Disposals	(4.8)	(0.1)	—	(4.9)
At 31 December 2021	24.4	0.6	1.2	26.2
At 1 January 2022	24.4	0.6	1.2	26.2
Exchange differences	1.2	—	—	1.2
Charge for the year	10.0	0.1	—	10.1
Disposals	(8.8)	(0.1)	—	(8.9)
At 31 December 2022	**26.8**	**0.6**	**1.2**	**28.6**
Carrying amount				
At 31 December 2022	**28.0**	**0.2**	**—**	**28.2**
At 31 December 2021	24.6	0.3	—	24.9

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

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

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

	31 December 2022 £m	31 December 2021 £m
Property, plant and equipment (owned)	**2.7**	2.7
Right-of-use assets	**7.3**	11.4
	10.0	14.1

Reconciliation of amount recognised in the balance sheet

	Leasehold improvements £m	Computer equipment £m	Furniture and fixtures £m	Right-of-use assets (property) £m	Total £m
Cost					
At 1 January 2021	6.1	3.6	2.8	46.8	59.3
Disposals	(1.4)	(1.8)	(1.0)	—	(4.2)
Additions	—	0.7	0.1	—	0.8
Exchange differences	—	0.2	—	(0.4)	(0.2)
Derecognition of right-of-use assets	—	—	—	(15.4)	(15.4)
At 31 December 2021	4.7	2.7	1.9	31.0	40.3
At 1 January 2022	4.7	2.7	1.9	31.0	40.3
Disposals	—	(0.8)	—	—	(0.8)
Additions[1]	0.5	1.0	0.1	0.7	2.3
Exchange differences	—	0.1	0.1	1.0	1.2
Derecognition of right-of-use assets	—	—	—	—	—
At 31 December 2022	**5.2**	**3.0**	**2.1**	**32.7**	**43.0**
Accumulated depreciation					
At 1 January 2021	3.7	3.2	1.7	22.0	30.6
Disposals	(1.4)	(1.8)	(1.0)	—	(4.2)
Charge for the year	0.8	0.6	0.3	4.2	5.9
Impairment (exceptional)	0.2	—	0.4	3.3	3.9
Exchange differences	(0.1)	(0.1)	0.1	—	(0.1)
Derecognition of right-of-use assets	—	—	—	(9.9)	(9.9)
At 31 December 2021	3.2	1.9	1.5	19.6	26.2
At 1 January 2022	3.2	1.9	1.5	19.6	26.2
Disposals	—	(0.8)	—	—	(0.8)
Charge for the year	0.7	0.7	0.2	3.5	5.1
Impairment	—	—	—	1.8	1.8
Exchange differences	—	0.1	0.1	0.5	0.7
Derecognition of right-of-use assets	—	—	—	—	—
At 31 December 2022	**3.9**	**1.9**	**1.8**	**25.4**	**33.0**
Carrying amount					
At 31 December 2022	**1.3**	**1.1**	**0.3**	**7.3**	**10.0**
At 31 December 2021	1.5	0.8	0.4	11.4	14.1

1. Leasehold improvement additions in the year are non-cash in nature.

Certain right-of-use assets related to the US San Francisco office have been sublet under an operating sublease. Due to a reduction in market values since inception of the sublet, the estimated cash flows expected on expiry of the existing sublet and negotiation of further sublet are lower and as a result an impairment of £1.8m was recognised in the year ended 31 December 2022. The impairment was not treated as an exceptional item.

During the previous year ended 31 December 2021, certain other right-of-use assets related to the US San Francisco office were sublet in a finance sublease. As a result the right-of-use asset was derecognised and a net investment in sublease was recognised within other receivables. During the previous year the right-of-use asset related to the Netherlands business was exited along with the corresponding head lease liability. The carrying values of the right-of-use asset and lease liability at the point of derecognition were £0.4m. See note 4 for related exceptional items.

Lease liabilities

Amounts recognised on the balance sheet were as follows:

	31 December 2022 £m	31 December 2021 £m
Current	**7.2**	6.9
Non-current	**12.6**	17.0
Total	**19.8**	23.9

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

	31 December 2022 £m	31 December 2021 £m
Depreciation charge of right-of-use assets (property)	**3.5**	4.2
Interest expense (included in finance costs)	**0.9**	1.1
Expense relating to short-term leases and leases of low-value assets	**0.4**	0.1

The total cash outflow for leases (excluding short-term and low-value leases) in 2022 was £7.3m (2021: £8.1m).

As at 31 December 2022 the potential future undiscounted cash outflows that have not been included in the lease liability, due to lack of reasonable certainty the lease extension options might be exercised, amounted to £nil (2021: £nil).

10. Trade and other receivables

	31 December 2022 £m	31 December 2021 £m
Other receivables	**3.4**	4.1
Non-current trade and other receivables	**3.4**	4.1
Trade receivables	**0.4**	1.8
Other receivables[1]	**5.3**	10.0
Prepayments	**3.7**	4.8
Accrued income	**4.8**	6.2
Rent and other deposits	**2.3**	2.2
Current trade and other receivables	**16.5**	25.0
	19.9	29.1

1. Includes £nil (2021: £3.6m) in relation to cash and liquidity reserves held in the UK securitisation vehicle.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables described earlier.

No trade receivables were overdue or impaired.

Included in rent and other deposits are £1.3m of rental deposits (2021: £1.6m) in respect of the Group's property leases which expire over the next five years.

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

11. Trade and other payables

	31 December 2022 £m	31 December 2021 £m
Trade payables	**2.5**	3.7
Other taxes and social security costs	**5.0**	4.9
Other creditors	**9.7**	11.4
Accruals and deferred income	**14.6**	16.4
	31.8	36.4

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

12. Provisions and other liabilities

	Dilapidation £m	Loan repurchase £m	Restructuring[1] £m	Other[1] £m	Total £m
At 1 January 2021	0.9	5.2	1.1	2.7	9.9
Exchange differences	—	(0.3)	(0.1)	0.2	(0.2)
Additional provision/liability	—	—	—	1.1	1.1
Amount utilised	—	(2.6)	(0.8)	(0.2)	(3.6)
Amount reversed	(0.3)	(0.1)	—	(2.7)	(3.1)
At 31 December 2021	0.6	2.2	0.2	1.1	4.1
Exchange differences	—	0.1	—	0.1	0.2
Additional provision/liability	0.5	—	—	0.5	1.0
Amount utilised	—	(0.9)	(0.2)	(0.2)	(1.3)
Amount reversed	—	(0.9)	—	(1.0)	(1.9)
At 31 December 2022	**1.1**	**0.5**	**—**	**0.5**	**2.1**

1. Restructuring provision is in relation to reorganisation of the US, German and Dutch businesses; see note 4. Other provisions includes provisions for operational buybacks. £0.3m (2021: £nil) of expected credit loss impairment allowance related to undrawn FlexiPay lines of credit is also included within other.

	31 December 2022 £m	31 December 2021 £m
Current provisions and other liabilities	**1.0**	3.4
Non-current provisions and other liabilities	**1.1**	0.7
	2.1	4.1

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

Loan repurchase liability

In certain historical circumstances, in 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.

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

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

	Performing: 12-month ECL £m	Underperforming: lifetime ECL £m	Non-performing: lifetime ECL £m	Total £m
At 1 January 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	—	0.1	—	0.1
Liability against loans transferred between stages	(0.1)	(0.2)	0.7	0.4
Amounts utilised	—	—	(0.9)	(0.9)
Loans repaid	(0.9)	(0.1)	(0.2)	(1.2)
Change in probability of default	(0.2)	(0.1)	0.2	(0.1)
At 31 December 2022	**0.2**	**0.1**	**0.2**	**0.5**

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

At 31 December 2022	**Expected credit loss coverage %**	**Basis for recognition of loan repurchase liability**	**Gross assets of external parties subject to loan repurchase liability £m**	**Loan repurchase liability £m**
Performing (due in 30 days or less)	**9.6**	**12-month ECL**	**2.4**	**0.2**
Underperforming (31–90 days overdue)	**32.6**	**Lifetime ECL**	**0.2**	**0.1**
Non-performing (90+ days overdue)	**92.9**	**Lifetime ECL**	**0.2**	**0.2**
		Total	**2.8**	**0.5**

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 which are incorporated into scenarios and probability weighted.

Estimation is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information including macroeconomic forecasts in each market together with the impact on loan defaults.

The 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 £2.8m (2021: £10.0m). This would be dependent on the timing of any eligible loans defaulting. Repayments of eligible loans are no longer reinvested and therefore the final loan is due to expire in December 2024, along with the associated financial guarantees. At 31 December 2022, there is only one portfolio of loans.

13. Financial risk management

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

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

Risk factors

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

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

Principal financial instruments

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

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

Categorisation of financial assets and financial liabilities

The tables show the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2022:

Assets	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
SME loans (other)	**20.9**	**24.8**	**—**	**45.7**
SME loans (warehouse)	**2.4**	**—**	**—**	**2.4**
SME loans (securitised)	**45.8**	**—**	**—**	**45.8**
Lines of credit	**—**	**16.0**	**—**	**16.0**
Investment in trusts and co-investments	**28.7**	**—**	**—**	**28.7**
Trade and other receivables	**—**	**16.2**	**—**	**16.2**
Cash and cash equivalents	**121.6**	**56.1**	**—**	**177.7**
	219.4	**113.1**	**—**	**332.5**

Liabilities	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
Trade and other payables	**—**	**(12.2)**	**—**	**(12.2)**
Loan repurchase liability	**—**	**—**	**(0.5)**	**(0.5)**
Bank borrowings	**—**	**(22.6)**	**—**	**(22.6)**
Bonds	**—**	**(23.7)**	**—**	**(23.7)**
Lease liabilities	**—**	**(19.8)**	**—**	**(19.8)**
	—	**(78.3)**	**(0.5)**	**(78.8)**

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

Assets	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
SME loans (other)	—	74.2	—	74.2
SME loans (warehouse)	3.2	—	—	3.2
SME loans (securitised)	148.1	—	—	148.1
Lines of credit	—	1.6	—	1.6
Investment in trusts and co-investments	39.1	—	—	39.1
Trade and other receivables	—	24.3	—	24.3
Cash and cash equivalents	112.1	111.9	—	224.0
	302.5	212.0	—	514.5

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

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, certain SME loans (other), bank borrowings, lease liabilities, certain bonds and trade and other payables. Due to their nature, the carrying value of each of the above financial instruments approximates to their fair value.

Other financial instruments

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

Financial instruments measured at fair value

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

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

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the assets or liabilities.

The fair value of financial instruments that are not traded in an active market (for example, investments in SME loans) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. An assessment that the level applied to financial instruments is appropriate and whether a transfer between levels is required is undertaken at the end of each accounting period. There were no transfers between levels during the year or prior year.

The Finance department of the Group performs the valuations of items required for financial reporting purposes, including level 3 fair values. This team reports to the Chief Financial Officer (CFO). Discussions of valuation processes and results are held regularly at Balance Sheet Management and Investment Valuation Committees along with regular updates provided to the Audit Committee.

	Fair value measurement using			
31 December 2022	**Quoted prices in active markets (level 1) £m**	**Significant observable inputs (level 2) £m**	**Significant unobservable inputs (level 3) £m**	**Total £m**
Financial assets				
SME loans (warehouse)	—	—	**2.4**	**2.4**
SME loans (securitised)	—	—	**45.8**	**45.8**
SME loans (other)	—	—	**20.9**	**20.9**
Investment in trusts and co-investments	—	—	**28.7**	**28.7**
Cash and cash equivalents	**121.6**	—	—	**121.6**
	121.6	—	**97.8**	**219.4**
Financial liabilities				
Bonds	—	—	—	—
	—	—	—	—

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

The fair value of SME loans (warehouse) has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the SME loans (warehouse) was £2.4m at 31 December 2022 (2021: £3.2m).

The fair value of SME loans (securitised) represents loan assets in the securitisation vehicles and legacy loans of this nature and has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the SME loans (securitised) was £45.8m at 31 December 2022 (2021: £148.1m).

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 estimated 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 31 December 2022 (2021: £12.8m).

Investment in trusts and co-investments represents the Group's investment in the trusts and other vehicles used to fund CBILS, RLS and certain commercial loans and is measured at fair value through profit and loss. The government-owned British Business Bank will guarantee up to 80% of the balance of CBILS loans in the event of default (and between 70% and 80% of RLS loans). The fair value has been estimated by discounting future cash flows in relation to the trusts 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 £28.7m at 31 December 2022 (2021: £39.1m).

The SME loans (other) held at fair value 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 £20.9m (2021: £nil).

The most relevant significant unobservable inputs relate to the default rate estimate and discount rates applied to the fair value calculation, details of which are set out in note 16 for those with material estimation uncertainty.

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 account in fair value gains/(losses).

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
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 gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	16.3	18.2	(5.0)	(0.9)	—	—
Foreign exchange (loss)/gain	(0.4)	0.3	—	—	—	—
At 31 December 2021	3.2	148.1	(12.8)	39.1	—	—
Additions	—	—	—	6.4	22.6	—
Repayments	(2.8)	(86.8)	16.3	(10.0)	(0.8)	—
Disposal	—	(39.5)	—	—	—	—
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	2.0	14.7	(3.5)	(7.0)	(1.4)	—
Foreign exchange gain	—	9.3	—	0.2	0.5	—
At 31 December 2022	**2.4**	**45.8**	**—**	**28.7**	**20.9**	**—**

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:

	31 December 2022 £m	31 December 2021 £m
Non-current		
SME loans (other)	**24.8**	74.2
Investment in trusts and co-investments	**28.7**	39.1
Trade and other receivables:		
– Other receivables	**3.4**	4.1
Current		
Line of credit	**16.0**	1.6
SME loans (other)	**20.9**	—
SME loans (warehouse)	**2.4**	3.2
SME loans (securitised)	**45.8**	148.1
Trade and other receivables:		
– Trade receivables	**0.4**	1.8
– Other receivables	**5.3**	10.0
– Accrued income	**4.8**	6.2
– Rent and other deposits	**2.3**	2.2
Cash and cash equivalents	**177.7**	224.0
Total gross credit risk exposure	**332.5**	514.5
Less bank borrowings and bond liabilities[1]	**(46.3)**	(213.5)
Total net credit risk exposure	**286.2**	301.0

1. Included within bank borrowings are £22.6m (2021: £73.2m) in relation to draw downs on the PPPLF.

In addition the Group is subject to financial guarantees it has issued to buy back loans detailed in the loan repurchase liability in note 12. The Group's maximum exposure to credit risk on financial guarantees were every eligible loan required to be bought back would be £2.8m (2021: £10.0m).

An expected credit loss allowance related to undrawn lines of credit on the FlexiPay product of £0.3m (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 £41.6m (2021: £4.2m).

SME loans (warehouse) and SME loans (securitised) relate to the underlying pool of SME loans in both the warehouse and securitisation vehicles or are loans from the legacy warehouses and SPVs that 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, certain of these SME loans (securitised) and the third party bonds that remain in SPVs are held within bankruptcy remote vehicles. If the SME loans were to all default, then the bank debt or third party bonds do not receive their money back. Therefore the overall exposure to the Group for these investments is the Group's net investment in the SME loans which is after taking account of the bank debt and third party bonds.

SME loans (other) includes £20.9m (2021: £nil) loans originated by the Group with the intention of selling onwards, which are held at FVTPL and are therefore disclosed as current.

Under IFRS 9, the Group is required to provide for loans measured at amortised cost under the expected credit loss ("ECL") model. The impairment related to each loan 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. In some circumstances where loans are bought back by the Group, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired ("POCI"); this element of the impairment is therefore based on lifetime ECLs.

Lines of credit utilised the same default definition and probability of default under IFRS 9, however, are assessed based on 12-month probability of default at the overall available line of credit level, estimating the expected utilisation of the line of credit at the estimated point of default. The expected credit loss impairment associated with undrawn lines of credit is disclosed within other liabilities in note 12.

SME loans (other) includes PPP loans 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.

Lines of credit comprises £16.0m (2021: £1.6m) of drawn amounts through the FlexiPay product net of expected credit loss impairment, enabling businesses to spread UK invoices or payments over three months with the initial payment made on a borrower's behalf. The gross principal value of SME loans (other) is £39.6m (2021: £89.5m) and drawn lines of credit held at amortised cost is £17.6m (2021: £1.6m), totalling £57.2m (2021: £91.1m), and an allowance for expected credit losses of £14.8m (2021: £15.3m) and £1.6m (2021: £nil) respectively, totalling £16.4m (2021: £15.3m), is held against these loans and drawn lines of credit as detailed below.

An impairment credit of £0.9m (2021: charge of £1.3m) was recognised through the statement of comprehensive income in the year to 31 December 2022 within credit/(provision) for expected credit losses in the income statement.

	Performing: 12-month ECL £m	Underperforming: Lifetime ECL £m	Non-performing: Lifetime ECL £m	POCI: Lifetime ECL £m	Total £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	**0.1**	**—**	**—**	**1.1**	**1.2**
Exchange differences	**0.1**	**—**	**0.1**	**1.0**	**1.2**
Impairment against loans transferred from /(to) performing	**(0.1)**	**0.3**	**0.3**	**—**	**0.5**
Loans repaid	**(0.3)**	**(0.3)**	**(0.5)**	**(1.2)**	**(2.3)**
Change in probability of default or loss given default assumptions	**0.7**	**—**	**(0.1)**	**(0.1)**	**0.5**
At 31 December 2022	**1.1**	**0.3**	**0.9**	**14.1**	**16.4**

	Expected credit loss coverage %	Basis for recognition of expected credit loss impairment	Gross lines of credit and SME loans (other) £m	Provision for expected credit loss £m	Net carrying amount £m
As at 31 December 2021					
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 (90+ days overdue)	95.1	Lifetime ECL	14.0	(13.3)	0.7
		Total	91.1	(15.3)	75.8
As at 31 December 2022					
Performing (due in 30 days or less)	**2.7**	12 month ECL	**39.2**	**(1.1)**	**38.1**
Underperforming (31–90 days overdue)	**36.5**	Lifetime ECL	**0.7**	**(0.3)**	**0.4**
Non-performing (90+ days overdue)	**43.1**	Lifetime ECL	**2.3**	**(0.9)**	**1.4**
POCI (90+ days overdue)	**94.2**	Lifetime ECL	**15.0**	**(14.1)**	**0.9**
		Total	**57.2**	**(16.4)**	**40.8**

Trade receivables represent the invoiced amounts 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 expected credit losses is recorded in the financial statements.

Other receivables include net investment in subleases of offices representing the present value of future sublease payments receivable. Where appropriate, impairment is recorded where the receivable is in doubt.

Individual risk limits for banks and financial institutions are set by the Group with reference to external rating agencies. The Group's treasury policy has set limits and quantities that the Group must remain within. No credit or counterparty limits were exceeded during the year. The Group's cash and cash equivalents split by S&P counterparty rating were A/A- rated: £56.2m (2021: £111.9m), A+ or better rated: £121.5m (2021: £112.0m) and below A- rated: £nil (2021: £0.1m).

14. Notes to the consolidated statement of cash flows

Cash (outflow)/inflow from operating activities

	31 December 2022 £m	31 December 2021 (re-presented)[1] £m
(Loss)/profit before taxation	**(12.9)**	64.1
Adjustments for		
Depreciation of property, plant and equipment	**5.1**	5.9
Amortisation of intangible assets	**10.1**	8.0
Impairment of intangible and tangible assets (prior year exceptional item)	**1.8**	3.9
Interest receivable	**(2.3)**	(0.1)
Interest payable	**0.9**	1.1
Non-cash employee benefits expense – share-based payments and associated social security costs	**4.7**	8.5
Fair value (gains)/losses	**(4.8)**	(28.6)
Movement in restructuring provision (prior year exceptional item)	**(0.2)**	(0.9)
Movement in loan repurchase liability	**(1.8)**	(3.0)
Movement in other provisions	**(0.1)**	(1.9)
Share of gains of associates	**(0.4)**	(0.9)
Other non-cash movements	**1.4**	(0.7)
Changes in working capital		
Movement in trade and other receivables	**8.8**	46.4
Movement in trade and other payables	**(3.7)**	1.4
Tax paid	**(1.0)**	(3.1)
Originations of lines of credit[1]	**(59.6)**	(3.6)
Cash receipts from lines of credit[1]	**43.6**	2.0
Net cash (outflow)/inflow from operating activities	**(10.4)**	98.5

1. As disclosed in note 1, FlexiPay drawn lines of credit have been re-presented within "Origination of/cash receipts from lines of credit" within cash flows from operating activities and were previously presented within "Origination of/ cash receipts from SME loans (other)" in cash flows from investing activities in the previous year ended 31 December 2021.

Cash and cash equivalents

	31 December 2022 £m	31 December 2021 £m
Cash and cash equivalents	**177.7**	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 their fair value. Included within cash and cash equivalents above is a total of £12.1m (2021: £24.6m) in cash which is restricted in use. Of this £1.1m (2021: £1.0m) is restricted in use in the event of rental payment defaults and cash held in the securitisation SPVs of £2.9m (2021: £14.4m) which has been collected for on-payment to bond holders and is therefore restricted in its use. A further £8.1m (2021: £9.2m) of cash is held which is restricted in use to repaying institutional investors in CBILS and RLS loans and paying CBILS and RLS-related costs to the UK government.

At 31 December 2022, money market funds totalled £121.6m (2021: £112.1m).

15. Significant changes in the current reporting year

The financial position and performance of the Group were affected by the following events and transactions during the year ended 31 December 2022:

i) Sale of securitised SME loans and unwind of UK and US SPVs (note 13)

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 in the UK. 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 holder 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 to the other junior note holder and repayment of the bond liabilities. 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. As a result, there are no unrated bond liabilities remaining for the Group. Subsequently the Group owned 51% of the securitised SME loans, directly through the subsidiary Funding Circle Ltd. The majority of the retained loans were sold to a third party with an economic cut off of 30 June 2022 and cash settlement in September 2022 for their fair value, with no gain or loss on sale, and as a result only a smaller portfolio of delinquent and defaulted loans was retained by the Group.

In October 2022, Funding Circle exercised the call rights associated with the ownership of the unrated junior residual tranches of Small Business Lending Trust 2019-A's bonds in the US. The call option became exercisable as the portfolio and bond liabilities of the SPV had amortised to below the minimum threshold. Funding Circle purchased the loans from the SPV 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 the repayment of the bond liabilities of the vehicle. The Group continues to consolidate 100% of the securitised SME loans, now owned directly by the subsidiary FC Marketplace LLC.

The Group continues to consolidate both the SPVs, 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.

The loans retained continue to be held at fair value through profit and loss, within SME Loans (securitised), as the Group continues to hold these with the intention of selling them if, and when, an attractive price can be realised.

ii) Scaling up of new products

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

Through FlexiPay, borrowers are provided with a facility which can be drawn to pay invoices and expenses, and are subsequently repaid over three months. A fee of 3% was charged in the year on the drawn amount which is recognised over the three-month life of the drawdown in interest income under the effective interest rate method. The accounting policy regarding FlexiPay is outlined below.

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

Lending through the FlexiPay product is recognised on 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 balance sheet 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.

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 with the exception of being assessed at the available line of credit level, estimating the utilisation of the line of credit to the estimated point of default and are detailed further within note 13. 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 £0.3 million (2021: £nil) loss allowance recognised within other liabilities in note 12.

iii) Redemption of investment in associate

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 £2.6m 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.

16. Critical accounting judgements and key sources of estimation uncertainty

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

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

The significant judgements and estimates applied by the Group in the financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2021.

Critical judgements

Consolidation and deconsolidation of special purpose vehicles (“SPVs”) and investment in trusts and co-investments (note 13)

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

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

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

Loans originated through the platform

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

Key sources of estimation uncertainty

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

Fair value of financial instruments (note 13)

At 31 December 2022, the carrying value of the Group’s financial instrument assets held at fair value was £219.4m (2021: £302.5m) and the carrying value of financial liabilities carried at fair value was £nil (2021: £12.8m).

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 (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 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.

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 partially offsetting the favourable revisions from default and recovery expectations.

With respect to investments in trusts and co-investments, where the Group holds a minority equity pari passu co-investment structured through warehouse vehicles, the increase in interest rates and future expected increases in interest rates has decreased the estimated fair value in these structures, as the floating rate interest on senior borrowing facilities within the vehicle is paid before returns to the equity holders, including Funding Circle, are made. 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, with lower defaults observed than anticipated, the macroeconomic 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 reduce the lifetime return to the equity holder and the inbuilt mechanisms of the vehicles which prioritise repayments to the senior lender could lead to cash flowing to the equity holder later. 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 rates are illustrated below.

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
SME loans (securitised)	45.8	Lifetime cumulative default rate as % of original	US: 14.6% and 17.1%[1] UK: 6.9%	A change in the lifetime cumulative default rate would have the following impact: US SPV1[1]: +68/-17 bps would decrease/increase fair value by £(0.8)m/£0.3m respectively. US SPV2[1]: +127/-34 bps would decrease/increase fair value by £(1.8)m/£0.6m respectively. UK: +36/-36 bps would decrease/increase fair value by £(0.4)m/ £0.4m respectively.
Investments in Trusts and co-investments	28.7	Lifetime cumulative default rate as % of original	Blended: 16.0%	A change in the lifetime cumulative default rate by +230/-480 bps would decrease/increase fair value by (£0.8)m and £1.8m respectively.

1. Two cumulative default rates are presented for the US representing the portfolios in each of the two respective pools of SME loans (securitised) related to the remaining and legacy 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 SPV2 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 and US SPV1 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 and US SPV1 default definition was previously aligned to the US SPV2 but amended after the loans were sold from the SPVs, driving the divergence in lifetime expected default rates presented between the SPVs.

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)	45.8	Risk-adjusted discount rate	US: 15.1% UK:18.5%	A change in the discount rates by +/-200 bps would decrease/ increase fair value by £0.8m/£(0.8)m respectively.
Investments in Trusts and co-investments	28.7	Risk-adjusted discount rate	7.5% to 20.3%	A change in the discount rate by +200/-200 bps would decrease/ increase fair value by £1.0m/£(1.0)m respectively.

It is considered that the range of reasonably possible outcomes in relation to the discount rate used could be +/-200 bps and as a result the fair value of the assets could materially diverge from management's estimate.

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

17. Subsequent events

Subsequent to the 31 December 2022, an agreement was signed in February 2023 to sell loans valued at £19.8m at 31 December 2022 and presented within SME loans (other) to a third party investor. The sale did not give rise to a material gain or loss.