Funding Circle Holdings plc
Half Year 2023 Results
Embargoed until 7.00am, 7 September 2023

HALF YEAR PERFORMANCE IN LINE WITH EXPECTATIONS
GOOD PROGRESS EXECUTING ON MEDIUM-TERM PLAN

Funding Circle Holdings plc ("Funding Circle") today announces results for the six months ended 30 June 2023.

Lisa Jacobs, Funding Circle CEO, says:
"We delivered a solid set of results in the first half of the year, in line with our expectations, and once again demonstrated the resilience of the business and our aptitude at responding to the changing economic environment.

"Our UK Loans business is profitable, we've seen good growth in US Loans and FlexiPay is showing great momentum as we expand our offering to access a larger market and serve more of our customers' needs. FlexiPay transactions have more than doubled to £90 million in the half, with more than £150 million transactions since launch. We have also extended our track record of delivering robust and attractive loan returns for our investors.

"We're making good progress towards our medium-term targets and are in a strong position to grow as the economic backdrop recovers."

Executive Summary:

- We delivered another solid financial performance in H1 2023:
    - Total originations and transactions of £771m, up 14% on H2 2022 (£678m) with growth in all business units.
    - Total income of £76.6m ahead of H2 2022 (£73.2m).
    - UK Loans business profitable (AEBITDA of £8.8m and PBT of £1.4m).
    - Group AEBITDA of negative £3.0m reflects planned investment in attractive growth opportunities across US Loans business and FlexiPay.

- We are managing the business through the changing economic environment:
    - Loan returns remain robust and attractive.
    - Continued institutional investor demand to fund loans, with three new forward flow agreements in the UK and US in H1 2023. In August we launched the third iteration of the Recovery Loan Scheme ('RLS') with Allica Bank as a new bank investor. Our first FlexiPay funding partnership is also providing senior debt funding, with FlexiPay having reached sufficient maturity and scale.
    - Customer satisfaction remained strong with Group NPS at 76 and a UK Trustpilot score of 4.6.

- And we continue to execute against the three strategic pillars of our medium-term plan:
    - **Attract more businesses:** strengthening existing distribution channels and expanding into new embedded and intermediated channels to enable more businesses to reach us.
    - **Say yes to more businesses**: serving more businesses through an expanded set of Funding Circle products and further integration with third party lenders.
    - **#1 in new products:** using our capabilities to enter new markets where we can develop market-leading products. FlexiPay transactions more than doubled on H2 2022 and our customers continue to show strong engagement.

- The guidance provided in March 2023 for FY 2023 and FY 2025 is unchanged.

Performance Highlights

	H1 2023 £m	H2 2022[1] £m	H1 2022[1] £m
Originations and transactions	**771**	678	803
Loans under Management (LuM)	**3,475**	3,743	4,071
Operating income	**72.5**	66.8	66.9
Net investment income[2]	**4.1**	6.4	10.9
Total income	**76.6**	73.2	77.8
Fair value gains	**3.4**	3.3	1.5
Net income	**79.6**	76.5	79.3
AEBITDA[3]	**(3.0)**	(1.7)	11.2
Profit/(loss) before taxation	**(16.6)**	(14.5)	1.6
Cash	**203.5**	177.7	200.7
Net Assets	**264.2**	284.0	299.3

Financial Summary:

- Originations and transactions of £771m up on H2 2022 following the continued growth in commercial lending and FlexiPay. H1 2022 originations of £803m included the UK government loan scheme, RLS (second iteration), which ceased in May 2022.
- LuM reduced to £3.5bn (H1 2022: £4.1bn) with commercial LuM growing but at a slower rate than government scheme loans are repaying.
- Operating income grew to £72.5m up on H1 and H2 2022 (£66.9m and £66.8m respectively) following origination yield increases, income from FlexiPay and improved interest on cash.
- Net investment income was £4.1m (H1 2022: £10.9m) and, in line with expectations, continues to reduce each half as investments amortise down.
- Fair value gain of £3.4m (H1 2022: £1.5m) reflects continued positive revaluations for improved underlying credit performance.
- AEBITDA of negative £3.0m (H1 2022: £11.2m) reflects planned investment in both the US Loans business and FlexiPay with UK Loans business AEBITDA positive at £8.8m and profitable at a PBT level at £1.4m.
- Loss before tax was £16.6m (H1 2022: profit before tax £1.6m).
- Net assets remain robust at £264.2m but decreased as we continue to invest in the US Loans business and FlexiPay. Group cash is £203.5m (31 December 2022: £177.7m), of which £172.5m (31 December 2022: £165.6m) is unrestricted[3].

To improve clarity and to better reflect our evolving business, we have made certain changes to the presentation of our financial results. All interest earned is now shown within Total Income (and consequently AEBITDA), where previously interest earned on cash was presented below operating profit. With no meaningful other items between operating profit and profit before tax we no longer present an operating profit line item. Comparative financial information has been re-presented with further detail provided in Note 2.

Outlook:

FY 2023 and FY 2025 guidance provided in March 2023 is unchanged, as shown below.

	FY 2023		Medium Term (FY 2025)		
	UK and US Loans	**FlexiPay**	**UK Loans**	**US Loans**	**FlexiPay**
Total income	£150m - £160m	Over £10m	At least £175m	At least £70m	At least £50m
AEBITDA	£0-10m	£(10-20)m	Margins of 25-30%	AEBITDA positive	AEBITDA positive

1 The comparative financial information has been re-presented to include interest income on cash and cash equivalents within 'Operating Income'. Refer to Note 2 within the financial statements

2 For definitions of non-GAAP measures refer to Glossary section

3 Unrestricted cash refers to total cash less cash that is restricted in use. The restricted cash is cash that is not available for general use by the company as it is held within investment vehicles and generally payable to third parties.

Analyst presentation:

Management will host an analyst and shareholder presentation and conference call at 9:30am UK time (BST), on Thursday 7 September 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 Half Year when prompted by the operator.

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 the UK's leading SME lending platform, with a material and growing presence in the US. Its mission is to build the place where small businesses get the funding they need to win.

Funding Circle enables small businesses to access funding – offering an unrivalled customer experience powered by data and technology.

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

Globally, Funding Circle has extended more than £16bn in credit to c.140,000 businesses.

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

Funding Circle is the UK's leading SME lending platform, with a material and growing presence in the US. Our mission is to build the place where small businesses get the funding they need to win.

We enable small businesses to borrow, pay and spend – offering an unrivalled customer experience powered by data and technology. We give institutional investors access to an alternative asset class in an underserved market, with robust and attractive returns. We have now helped more than 140,000 SMEs to access more than £16 billion.

We have an attractive and proven business:

- Leading SME lending platform in a large and underserved market
    - £330bn SME lending and £1.3trn SME B2B payments market opportunity.
- Technology and data drive a superior customer experience and sustained competitive advantage
    - Group Net Promoter Score (NPS) of 76 and Trustpilot score of 4.6 stars.
    - 3x better risk discrimination than traditional bureau scores, delivering high conversion and robust and attractive loan returns.
- Strong financial profile and proven business model, demonstrated through the cycle
    - Robust balance sheet and cash position.
    - Established and profitable UK Loans business.
- Executing on attractive growth opportunities to help more small businesses win
    - Our medium-term plan is focused on expanded distribution, increased conversion, and an expanded product set.
    - Significant medium-term opportunities in US Loans business and FlexiPay.

We are delivering against our medium-term plan which brings significant growth opportunities:

- In March 2022, we announced our medium-term plan to transform Funding Circle into a multi-product platform, serving a direct and embedded audience.
- 18 months 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
        - FlexiPay extends our product range so customers can now borrow, pay and spend with Funding Circle.
        - Completed first year of sports sponsorship with Premiership Rugby driving increased brand metrics.
        - Expanding distribution channels with new partnerships in the UK and US.
    - **Say yes to more businesses:** serving more businesses through an expanded set of personalised Funding Circle products and further integration with third party lenders
        - New customer segments launched in 2022 continued to deliver growth, with H1 UK near prime making up 12% of UK Loans business volume and US super prime contributing 32% of US Loans business value.
        - Marketplace (where we refer businesses we cannot support to other lenders) showing strong momentum in UK and US, accounting for 13% of originations.
    - **#1 in new products:** using our capabilities to enter new markets where we can develop market-leading products
        - FlexiPay transactions more than doubled in H1 2023 to £90m, with >£150m FlexiPay transactions since launch.
        - >40,000 transactions since launch as at end H1 2023.
        - Following a successful beta phase, we are now moving into launch phase which will see FlexiPay card available to new and existing customers.
        - Secured senior debt funding from Citibank, with FlexiPay having reached sufficient maturity and scale.

Overview of the six months ended June 2023

The performance in H1 2023 was in line with our expectations, with growth from each of our business units compared to H2 2022. The Group comprises three trading business units each at differing stages of maturity.

As expected, UK Loans business originations were down against H1 2022, when it was operating under the second iteration of the UK government-guaranteed RLS. Since we reported in March 2023, the UK economic recovery has been slower than we anticipated.

The US Loans business showed good growth on H2 2022 with LuM increasing in H1 2023 and we will continue to invest in its cost base as it scales.

Our line of credit product, FlexiPay, has demonstrated significant growth to date and we are investing in this opportunity. Its transaction levels continue to grow (more than doubled in H1 2023 to £90m) and we are experiencing strong customer engagement as we open up to new segments and launch new features.

Originations and transactions	H1 2023 £m	H2 2022 £m	H1 2022 £m
Loans			
United Kingdom	**471**	454	641
United States	**210**	182	145
Other	**-**	-	-
	681	636	786
FlexiPay	**90**	42	17
Total	**771**	678	803

Loan originations in H1 2023 totalled £681m. This grew from £636m in H2 2022 but was below the H1 2022 levels of £786m when the UK Loans business was originating loans under the second iteration of RLS. FlexiPay line of credit transactions have grown each half.

Loans under Management (LuM)	30 June 2023 £m	31 December 2022 £m
Loans		
United Kingdom	**3,021**	3,311
United States	**398**	375
Other	**22**	39
	3,441	3,725
FlexiPay	**34**	18
Total	**3,475**	3,743

Loans under management declined in the period by 7% to £3,475m. This was principally driven by continued repayment on the government loan schemes, CBILS, RLS and PPP, offset by growth in loans under management from commercial lending and in FlexiPay. Both the US Loans business and FlexiPay LuM grew in the period.

As at 30 June 2023 UK government-guaranteed loans represented £1,869m (31 December 2022: £2,325m) and PPP loans represented £8m (31 December 2022: £28m).

Segmental highlights

Net income/(loss)

	30 June 2023					30 June 2022[4]				
	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[4]	**55.4**	**14.5**	**0.3**	**2.3**	**72.5**	55.6	10.1	0.8	0.4	66.9
Net investment income	**1.7**	**2.4**	**-**	**-**	**4.1**	6.7	4.2	-	-	10.9
Total income	**57.1**	**16.9**	**0.3**	**2.3**	**76.6**	62.3	14.3	0.8	0.4	77.8
Fair value gains/(losses)	**0.4**	**3.0**	**-**	**-**	**3.4**	(4.0)	5.5	-	-	1.5
Cost of funds	**-**	**-**	**-**	**(0.4)**	**(0.4)**	-	-	-	-	-
Net income	**57.5**	**19.9**	**0.3**	**1.9**	**79.6**	58.3	19.8	0.8	0.4	79.3
Adjusted EBITDA[4]	**8.8**	**(3.8)**	**(0.2)**	**(7.8)**	**(3.0)**	8.1	2.0	1.8	(0.7)	11.2
Discount unwind on lease liabilities[5]	**(0.1)**	**(0.3)**	**-**	**-**	**(0.4)**	(0.1)	(0.4)	-	-	(0.5)
Depreciation, amortisation and impairment	**(5.5)**	**(4.3)**	**-**	**(0.5)**	**(10.3)**	(5.3)	(1.6)	-	-	(6.9)
Share-based payments and social security costs	**(1.8)**	**(0.7)**	**-**	**(0.3)**	**(2.8)**	(1.9)	(0.4)	-	-	(2.3)
Foreign exchange gains/(losses)	**-**	**(0.1)**	**-**	**-**	**(0.1)**	0.1	-	-	-	0.1
Profit/(loss) before tax	**1.4**	**(9.2)**	**(0.2)**	**(8.6)**	**(16.6)**	0.9	(0.4)	1.8	(0.7)	1.6
Operating AEBITDA[5]	***6.7***	***(9.2)***	***(0.2)***	***(7.8)***	***(10.5)***	*5.4*	*(7.7)*	*1.8*	*(0.7)*	*(1.2)*
Investment AEBITDA[5]	***2.1***	***5.4***	***-***	***-***	***7.5***	*2.7*	*9.7*	*-*	*-*	*12.4*

[4] The comparative financial information has been re-presented with Operating profit now removed and instead AEBITDA is reconciled to profit before tax. The three items below Operating profit were finance income, finance costs and share of profit of associates. The finance income which represents interest income on cash and cash equivalents is now included within 'Operating Income' and was £0.5m in H1 2022 and £3.5m in H1 2023. The share of profits of associates is included within other operating costs and is included within AEBITDA and was £0.1m in H1 2022 and £0.1m in H1 2023. Finance costs which represent the discount unwind on lease liabilities is included within other operating costs and is included below AEBITDA alongside the depreciation associated with our leased premises. Refer to Note 2.

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

United Kingdom Loans business

We saw growth from H2 2022 in our core lending, as well as originations through our marketplace of third party lenders. Originations were £471m in H1 2023, decreasing from £641m in H1 2022, and were higher than the £454m in H2 2022. Originations were funded through forward flow agreements with institutional investors.

Bank of England base rate increases through the half have raised the cost of borrowing for SMEs, but targeted marketing, strong relationships with brokers and continued focus on customer experience have enabled us to make progress despite these headwinds.

The UK delivered operating income of £55.4m in H1 2023, compared with £55.6m in H1 2022. Whilst lower originations resulted in lower transaction fees, we have been able to maintain operating income in line with H1 2022 largely through origination yield improvements and higher interest generated on corporate cash balances.

Investment income of £1.7m decreased from £6.7m in H1 2022 following the sale of previously securitised loans in H2 2022, as well as continued amortisation of trust holdings from government-backed schemes.

The UK generated operating AEBITDA of £6.7m in H1 2023 compared to £5.4m in H1 2022, with AEBITDA margin improvement. Investment AEBITDA was £2.1m in H1 2023, down slightly from £2.7m in H1 2022. Despite lower net investment income, we benefitted from favourable fair value movements, after revising down our macroeconomic view in H1 2022, recognising a fair value loss at that point in time.

Profit before tax was £1.4m in H1 2023, up from £0.9m in H1 2022 due to the growth in AEBITDA.

United States Loans business

The US has continued to grow originations each half year period since commercial lending resumed after the PPP ceased in May 2021. Originations in H1 2023 were £210m compared with £182m in H2 2022 and £145m in H1 2022. Originations were funded through forward flow agreements with institutional investors.

Total income for the US was £16.9m (H1 2022: £14.3m). This comprised growth in operating income but a reduction in investment income. H1 2022 also included £2.5m of PPP deferred income.

Operating income grew to £14.5m (H1 2022: £10.1m) driven by the increase in originations together with increased pricing on origination fees.

With the growth in income, operating AEBITDA for the period improved on H2 2022 but remained negative at £9.2m as the US continued to implement planned investments to scale the business. H2 2022 operating AEBITDA was negative at £10.1m and H1 2022 was negative at £7.7m (or negative £10.2m excluding the benefit of £2.5m deferred PPP income).

Net investment income was £2.4m (H1 2022: £4.2m). Similar to the UK, the reduction in investment income and investment AEBITDA reflects the amortising nature of the investment in SME loans held on balance sheet albeit there remained strong recoveries and lower than expected defaults driving a positive fair value.

FlexiPay

FlexiPay transactions have more than doubled each half year since launch and were £90m in H1 2023. Drawn lines of credit at 30 June 2023 were £34m.

The transactions generated operating income of £2.3m (H1 2022: £0.8m). The fee charged on FlexiPay for each drawdown against lines of credit ranges from 3.0-5.9% which is paid in three equal instalments along with the repayment of each drawdown balance.

The AEBITDA for the period was negative at £7.8m (H1 2022: negative £0.7m). The principal costs incurred are staff-related costs, marketing costs and expected credit losses which are required to be recognised up front on the drawn and undrawn lines of credit.

Until June 2023, FlexiPay was solely funded through Funding Circle invested capital. During June 2023, the Group drew down on a newly set up senior debt facility with Citibank. The interest payable on this facility is shown in “cost of funds”.

As the business builds, we anticipate there to be continuing investment with a resultant growth in the cost base.

Finance review

Overview
Group total income was £76.6m (H1 2022: £77.8m), down 2%, and net income was £79.6m (H1 2022: £79.3m).

Net income is total income plus fair value movements on SME loans held for sale and investments in trusts and now also includes cost of funds. In June 2023, the Group levered its funding of the FlexiPay product with a senior debt facility and the interest payable on this debt is shown within cost of funds.

The Group's loss before tax was £16.6m for the period (H1 2022: profit of £1.6m).

Profit and loss

	30 June 2023 £m	30 June 2022[6] £m
Transaction fees	**41.7**	40.7
Servicing fees	**22.0**	24.2
Interest income	**5.8**	1.1
Other fees	**3.0**	0.9
Operating income	**72.5**	66.9
Investment income	**4.7**	14.1
Investment expense	**(0.6)**	(3.2)
Total income	**76.6**	77.8
Fair value gains	**3.4**	1.5
Cost of funds	**(0.4)**	-
Net income	**79.6**	79.3
People costs	**(44.8)**	(41.4)
Marketing costs	**(23.9)**	(17.3)
Depreciation, amortisation and impairment	**(10.3)**	(6.9)
(Charge)/credit for expected credit losses	**(1.9)**	1.0
Other costs	**(15.3)**	(13.1)
Operating expenses	**(96.2)**	(77.7)
(Loss)/profit before tax	**(16.6)**	1.6

Operating income includes transaction fees, servicing fees, interest income from loans held at amortised cost, interest on cash balances and other fees and was £72.5m (H1 2022: £66.9m).

- *Transaction fees*, representing fees earned on originations, increased to £41.7m (H1 2022: £40.7m). Loan originations and line of credit transactions were 4% down on H1 2022, however this was offset by improved origination fee yields in the UK Loans business.

  Average origination fee yields grew in the UK Loans business to 6.3% (H1 2022: 5.0%). Yields in the US Loans business averaged 5.8% (H1 2022: 6.1%), although yields in H1 2022 were distorted by PPP deferred income and, once this is excluded, average yields in H1 2022 were 4.4%.

- *Servicing fees* were £22.0m (H1 2022: £24.2m), down in line with LuM. These represent the fees we charge investors for servicing their loans and move in line with the fees we charge and the quantum of loans under management. Servicing fees are not charged on FlexiPay lines of credit or on the PPP loans. Servicing yields remain similar to 2022 levels.

- *Interest income* represents interest earned on loans held at amortised cost and on cash and cash equivalents. This relates to FlexiPay (£2.3m), where we charge a fee which is spread over three months, in line with borrower repayments together with interest earned on cash and cash equivalents (£3.5m) which has increased in line with base rates.

- *Other fees* arose principally from collection fees we recovered on defaulted loans, some of which was accelerated through investors selling some of their non-performing loan portfolios.

Net investment income represents the investment income, less investment expense, on loans held on balance sheet at fair value and declined to £4.1m (H1 2022: £10.9m). This was driven by the continued amortisation of the remaining loans and the buyout and wind up of the securitisation vehicles in the UK Loans business and US Loans business during 2022 and subsequent sale of certain loan portfolios in October 2022. The Group wound up the remaining US securitisation vehicle (SBIZ-20A) in April 2023.

Net income, defined as total income after fair value adjustments and cost of funds, was £79.6m (H1 2022: £79.3m). The fair value gain in the period related to the loans on balance sheet held at fair value reflected ongoing strong performance from the SME loans with lower defaults and higher recoveries than expected, in part offset by higher

[6] The comparative financial information has been re-presented to include interest income on cash and cash equivalents within 'Operating Income'. The impact of this was an increase in the interest income line of £0.5m in H1 2022 and £3.5m in H1 2023. Finance costs were £0.5m in H1 2022 and £0.4m in H1 2023 and the share of profits of associates was £0.1m and £0.1m in H1 2023 and are both now included in Other costs on the grounds of materiality. Refer to Note 2.

discount rates driven by UK and US base rates. As the on-balance sheet loans continue to amortise down, we would expect fair value gains/losses to continue to decline.

Operating expenses

At an overall level, operating expenses increased compared with H1 2022. Operating costs movements were driven by cost increases in the US Loans business as it builds to scale and cost investment in the new FlexiPay business including increased expected credit losses. Costs reduced in the established UK Loans business as a result of ongoing cost management.

People costs (including contractors), represent the Group's largest ongoing operating cost. These increased during the period by 8% to £51.2m (H1 2022: £47.2m), before the capitalisation of development spend. This was driven by wage inflation and headcount growth for the FlexiPay team as it scales. Headcount across UK Loans business has reduced by 8% with US Loans business headcount flat.

The share-based payment charge for the period, included in people costs, was £2.8m (H1 2022: £2.3m).

	30 June 2023 £m	30 June 2022 £m	Change %
People costs	**51.2**	47.2	8
Less capitalised development spend ("CDS")	**(6.4)**	(5.8)	10
People costs net of CDS	**44.8**	41.4	8
Average headcount (incl. contractors)	**1,065**	1,004	6
Period-end headcount (incl. contractors)	**1,059**	1,029	3

Marketing costs comprise above the line marketing channels (direct mail and online), brand spend and commission payments made to brokers. Marketing increased in the period to £23.9m (H1 2022: £17.3m) and was driven by investment in the FlexiPay and US businesses. Excluding FlexiPay, the Loans businesses invested 31% of operating income in marketing (H1 2022: 26%) with lower conversion in the current economic environment impacting marketing efficiency.

Depreciation, amortisation and impairment costs of £10.3m (H1 2022: £6.9m) largely represent the amortisation of the cost of the Group's capitalised technology development and the depreciation of right-of-use assets related to the Group's office leases. With a weakening commercial property market in San Francisco, the Group has impaired its sublet office space by £2.0m as the carrying values are no longer supportable. This follows an impairment of the San Francisco office in H2 2022 of £1.8m.

Expected credit losses principally relate to the IFRS9 charge for FlexiPay where we account for actual and future expected credit losses from SME's defaulting on their lines of credit. We would expect this charge to increase as FlexiPay grows.

Other operating costs have grown as the Group continues to invest in growth in the US Loans and FlexiPay businesses.

Balance sheet and investments

The Group's net equity was £264m at 30 June 2023 (31 December 2022: £284m). This reduction reflects the Group's operating losses, the purchase of own shares by the Employee Benefit Trust ("EBT") and foreign exchange losses on the retranslation of the investment in the US Loans business.

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

	Operating business		Investment business			30 June 2023	31 December 2022
	Loans business[1]	FlexiPay	Legacy securitisation, warehouse and other loans at fair value	CBILS/RLS/ Commercial co-investments	Private funds	Total	Total
	£m	£m	£m	£m	£m	£m	£m
SME loans	10.2	30.5	31.3	25.0	2.1	**99.1**	141.3
Cash and cash equivalents	193.8	9.7	-	-	-	**203.5**	177.7
Other assets/(liabilities)	-	1.1	-	-	-	**1.1**	0.9
Borrowings/bonds	(6.1)	(30.8)	-	-	-	**(36.9)**	(46.3)
Cash and net investments	**197.9**	**10.5**	**31.3**	**25.0**	**2.1**	**266.8**	273.6
Other assets	58.3	**-**	**-**	**-**	**-**	**58.3**	64.1
Other liabilities	(60.9)	**-**	**-**	**-**	**-**	**(60.9)**	(53.7)
Equity	**195.3**	**10.5**	**31.3**	**25.0**	**2.1**	**264.2**	284.0

[1] Loans business includes £5.7m of PPP loans together with the associated Federal Reserve borrowings which we expect will both reduce as the remaining PPP loans are forgiven.

The table below provides a summation of Funding Circle's net invested capital in products and vehicles:

Investment in product/vehicles	30 June 2023 £m	31 December 2022 £m
1. Legacy securitisation, warehouse and other loans at fair value	31	46
2. CBILS/RLS/Commercial co-investments[2]	25	32
3. Private funds	2	3
Net invested	**58**	81
4. FlexiPay[2]	11	16
Total net invested capital	**69**	97

[2] These vehicles are bankruptcy remote

1. *Legacy securitisation, warehouse and other loans at fair value* – This relates to the legacy loans previously held in SPVs and warehouses. During H1 2023, the Group called options to wind down the US securitisation (SBIZ-20A) and in 2022, the Group called options to wind down UK (SBOLT-19A) and US (SBIZ-19A) securitisations and bought out the remaining bondholders. Additionally in previous years the Group closed certain warehouse entities in the UK and US repaying related borrowings and buying the loans out of the vehicles. The Group also holds certain loans at fair value which were originated with the intention of on-selling. The Group retains legacy securitisation, warehouse and other loans held at fair value of £31m which continue to amortise down.

2. *CBILS/RLS/Commercial co-investments* – As part of our participation in the CBILS and RLS UK government-guaranteed loan schemes, we were required to co-invest c.1% alongside institutional investors.

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

Cash flow

At 30 June 2023, the Group's cash position was £203.5m (31 December 2022: £177.7m). Of this balance £172.5m (31 December 2022: £165.6m) is unrestricted in its use. Restricted cash relates to cash held in investment and special purpose vehicles and the funding vehicle for FlexiPay.

Total cash movements have principally been driven by:

i) Trading performance
ii) Sale of temporary funding loans in the US Loans business
iii) Monetisation of on-balance sheet SME loans as they have continued to pay down offset by the wind down and buyout of the SBIZ-20A external bonds
iv) Leveraging the investment in FlexiPay lines of credit with external bank debt
v) Timing of working capital movements associated with UK government loan guarantee payments received from investors still to be paid to the British Business Bank

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 and lease payments. 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.

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

	30 June 2023 £m	30 June 2022[1] £m
Adjusted EBITDA	**(3.0)**	11.2
Fair value adjustments	**(3.4)**	(1.5)
Purchase of tangible and intangible assets	**(6.8)**	(6.6)
Payment of lease liabilities	**(3.0)**	(3.0)
Working capital/other	**11.1**	(1.4)
Free cash flow	**(5.1)**	(1.3)
Net distributions from associates	**0.7**	2.0
Net movement in trusts and co-investments	**3.4**	(1.7)
Net originations of lines of credit	**15.0**	(5.6)
Net movement in other SME loans	**17.2**	(1.1)
Net movement in warehouses and securitisation vehicles	**(2.9)**	(15.3)
Purchase of own shares	**(1.8)**	(4.6)
Effect of foreign exchange	**(0.7)**	4.3
Movement in the year	**25.8**	(23.3)
Cash and cash equivalents at the beginning of the period	**177.7**	224.0
Cash and cash equivalents at the end of the period	**203.5**	200.7

[1]The comparative information has been re-presented consistent with the Income Statement.

Principal risks and uncertainties

The Group's principal risks and uncertainties were disclosed on pages 59 to 69 of the Funding Circle Holdings plc 2022 Annual Report and Accounts after review and approval by the Board. The Group considers that the overall principal risks and uncertainties, risk appetite, key risks and management of risks remain unchanged for the six months ended 30 June 2023.

The principal risks include:

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

- Funding and balance sheet risk;

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

- Regulatory, reputation and conduct risk; and

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

Statement of Directors' Responsibilities

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

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

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

The Directors of Funding Circle Holdings plc are listed in the Funding Circle Holdings plc Annual Report and Accounts for 31 December 2022. A list of current directors is maintained on the Funding Circle Holdings plc website: www.corporate.fundingcircle.com.

By order of the Board

Lisa Jacobs, Chief Executive Officer

7 September 2023

Oliver White, Chief Financial Officer

7 September 2023

Condensed consolidated statement of comprehensive income

For the six months to 30 June 2023 (unaudited)

	Note	Unaudited 6 months to 30 June 2023 £m	Unaudited 6 months to 30 June 2022 (Re-presented)[1] £m
Transaction fees		**41.7**	40.7
Servicing fees		**22.0**	24.2
Interest income[1]		**5.8**	1.1
Other fees		**3.0**	0.9
Operating income	4	**72.5**	**66.9**
Investment income		**4.7**	14.1
Investment expense		**(0.6)**	(3.2)
Total income	4	**76.6**	**77.8**
Fair value gains		**3.4**	1.5
Cost of funds		**(0.4)**	-
Net income	4	**79.6**	**79.3**
People costs		**(44.8)**	(41.4)
Marketing costs		**(23.9)**	(17.3)
Depreciation, amortisation and impairment		**(10.3)**	(6.9)
(Charge)/credit for expected credit losses[2]		**(1.9)**	1.0
Other costs		**(15.3)**	(13.1)
Operating expenses	5	**(96.2)**	**(77.7)**
(Loss)/profit before taxation		**(16.6)**	**1.6**
Income tax	6	**(1.5)**	5.5
(Loss)/profit for the period		**(18.1)**	**7.1**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		**(2.4)**	5.5
Total comprehensive (loss)/profit for the period		**(20.5)**	**12.6**
Total comprehensive (loss)/profit attributable to:			
Owners of the parent		**(20.5)**	12.6
Earnings per share			
Basic (loss)/earnings per share	7	**(5.2)p**	2.0p
Diluted (loss)/earnings per share	7	**(5.2)p**	1.8p

[1] The comparative consolidated statement of comprehensive income has been re-presented to include interest income on cash and cash equivalents within 'Interest income' which was previously presented within 'Finance Income'. Finance costs and share of net profit of associates are now presented within "Other costs" as these are not considered material to present separately. Refer to note 2 of the financial statements.

[2] The comparative period has been re-presented to present certain amounts in "(charge)/credit for expected credit losses" which were previously included within "other costs".

Condensed consolidated balance sheet

As at 30 June 2023 (unaudited)

	Note	Unaudited 30 June 2023 £m	31 December 2022 £m
Non-current assets			
Intangible assets	8	**28.4**	28.2
Property, plant and equipment	9	**6.8**	10.0
Investment in associates	10	**2.1**	2.7
Investment in trusts and co-investments	11	**25.0**	28.7
SME loans (other)	11	**10.2**	24.8
Deferred tax asset	6	**5.4**	6.9
Trade and other receivables	14	**1.8**	3.4
		79.7	104.7
Current assets			
SME loans (warehouse)	11	**1.5**	2.4
SME loans (securitised)	11	**28.8**	45.8
SME loans (other)	11	**1.0**	20.9
Lines of credit	11	**30.5**	16.0
Trade and other receivables		**17.0**	16.5
Cash and cash equivalents	16	**203.5**	177.7
		282.3	279.3
Total assets		**362.0**	384.0
Current liabilities			
Trade and other payables		**42.2**	31.8
Bonds	14	**-**	23.7
Bank borrowings	12	**30.8**	-
Short-term provisions and other liabilities	13	**1.4**	1.0
Lease liabilities	9	**7.3**	7.2
		81.7	63.7
Non-current liabilities			
Long-term provisions and other liabilities	13	**1.1**	1.1
Bank borrowings	12	**6.1**	22.6
Lease liabilities	9	**8.9**	12.6
		16.1	36.3
Total liabilities		**97.8**	100.0
Equity			
Share capital		0.4	0.4
Share premium account		293.1	293.1
Foreign exchange reserve		14.5	16.9
Share options reserve		22.0	22.2
Accumulated losses		(65.8)	(48.6)
Total equity		**264.2**	284.0
Total equity and liabilities		**362.0**	384.0

These condensed interim financial statements were approved by the Board on 07 September 2023. They were signed on behalf of the Board by:

O White
Director

Condensed consolidated statement of changes in equity

For the six months to 30 June 2023 (unaudited)

	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	(Accumulated losses)/retained earnings £m	Total equity £m
Balance as at 1 January 2023	0.4	293.1	16.9	22.2	(48.6)	**284.0**
Loss for the period	-	-	-	-	(18.1)	**(18.1)**
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	(2.4)	-	-	**(2.4)**
Transactions with owners						
Issue of share capital	-	-	-	-	-	-
Purchase of own shares held in employee benefit trust	-	-	-	-	(1.8)	**(1.8)**
Transfer of share option costs	-	-	-	(2.7)	2.7	-
Employee share schemes – value of employee services	-	-	-	2.5	-	**2.5**
Unaudited balance at 30 June 2023	**0.4**	**293.1**	**14.5**	**22.0**	**(65.8)**	**264.2**
Balance as at 1 January 2022	0.4	293.0	11.1	19.1	(35.6)	288.0
Profit for the period	-	-	-	-	7.1	7.1
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	5.5	-	-	5.5
Transactions with owners						
Issue of share capital	-	0.1	-	-	-	0.1
Purchase of own shares held in employee benefit trust	-	-	-	-	(4.6)	(4.6)
Transfer of share option costs	-	-	-	(0.8)	0.8	-
Employee share schemes – value of employee services	-	-	-	3.2	-	3.2
Unaudited balance as at 30 June 2022	0.4	293.1	16.6	21.5	(32.3)	299.3

Condensed consolidated statement of cash flows

For the six months to 30 June 2023 (unaudited)

	Note	Unaudited 6 months to 30 June 2023	Unaudited 6 months to 30 June 2022 (Re-presented)[1]
		£m	£m
Net cash (outflow)/inflow from operating activities	15	**(11.1)**	2.7
Investing activities			
Purchase of intangible assets		**(6.4)**	(6.0)
Purchase of property, plant and equipment		**(0.4)**	(0.6)
Originations of SME loans (other)		**(15.5)**	(2.1)
Cash receipts from SME loans (other)		**18.0**	43.8
Cash receipts from SME loans (warehouse phase)	14	**0.9**	1.5
Proceeds from sale of SME loans (other)	14	**30.6**	-
Proceeds from sale of SME loans (securitised)	14	**-**	22.1
Cash receipts from SME loans (securitised)	14	**19.7**	56.9
Investment in trusts and co-investments	14	**-**	(5.7)
Cash receipts from investment in trusts and co-investments	14	**3.4**	4.0
Redemption in associates	10	**0.6**	1.8
Dividends from associates	10	**0.1**	0.2
Net cash inflow from investing activities		**51.0**	115.9
Financing activities			
Proceeds from bank borrowings	12	**30.8**	-
Repayment of bank borrowings		**(15.9)**	(42.8)
Payment of bond liabilities		**(23.5)**	(95.8)
Proceeds from the exercise of share options		**-**	-
Proceeds from subleases		**0.6**	0.6
Purchase of own shares		**(1.8)**	(4.6)
Payment of lease liabilities		**(3.6)**	(3.6)
Net cash outflow from financing activities		**(13.4)**	(146.2)
Net increase/(decrease) in cash and cash equivalents		**26.5**	(27.6)
Cash and cash equivalents at the beginning of the period		**177.7**	224.0
Effect of foreign exchange rate changes		**(0.7)**	4.3
Cash and cash equivalents at the end of the period	**16**	**203.5**	200.7

1 The comparative period to 30 June 2022 has been re-presented to present 'interest received' which was previously a component of investing activities as a component of operating income to mirror the re-presentation of interest on cash and cash equivalents within 'Interest income' which was previously presented within 'Finance Income' on the consolidated statement of comprehensive income.

Notes to the condensed interim financial statements
For the six months to 30 June 2023 (unaudited)

1. Basis of preparation

General information

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

These condensed interim financial statements have been prepared as at, and for the six months to, 30 June 2023. The comparative financial information presented has been prepared for the six months to 30 June 2022 and as at 31 December 2022.

The interim financial information presented as at, and for the six months to, 30 June 2023 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements of the Group as at, and for the year to, 31 December 2022 are available on request from the Company's registered office and via the Company's website.

Going concern

The Group made a total comprehensive loss of £20.5 million during the six months to 30 June 2023 (30 June 2022: £12.6 million profit). As at 30 June 2023 the Group had net assets of £264.2 million (31 December 2022: £284.0 million). This included cash and cash equivalents of £203.5 million (31 December 2022: £177.7 million) of which £31.0 million (31 December 2022: £12.1 million) is restricted. Additionally within the net assets the Group holds £68.9 million (31 December 2022: £96.5 million) of invested capital, some of which is capable of being monetised if liquidity needs arise.

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

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

The base case scenario assumes:

- Continued growth in origination of the Group's core lending product until December 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, while interest rates increase marginally in the short term and decrease slowly over the longer term;
- The continued rollout of the new FlexiPay product leveraging the borrowing facility and the Group's balance sheet to fund it; and
- Costs and headcount grow modestly with the new product.

Management prepared a severe but plausible downside stress 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 occurring requiring a cash outlay; and
- A downside loss scenario is applied to Funding Circle's on-balance sheet investments in SME loans and lines of credit resulting in higher initial fair value losses and expected credit losses and lower cash flows to the investments it owns.

Under the base case and severe but plausible downside scenarios, sufficient cash is forecast to be available to meet liabilities as they fall due without the requirement to take significant mitigating actions or restructuring. The Group does not currently rely on committed or uncommitted borrowing facilities with the exception of a facility for the purpose of originating FlexiPay lines of credit and comparatively negligible remaining balance on the PPPLF previously used to fund PPP loans, and does not have undrawn committed borrowing facilities available to the wider Group.

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

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

Basis of preparation

These condensed interim financial statements, which have been reviewed and not audited, have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with UK adopted IAS 34, "Interim Financial Reporting". They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year to 31 December 2022 which have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial information included in these condensed interim financial statements does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the 'Act'). The statutory accounts for the year ended 31 December 2022 have been reported on by the Company's auditors and were delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Act.

Significant changes in the current reporting period

The financial position and performance of the Group was affected by the following events and transactions during the six months to 30 June 2023:

i) Launch of FlexiPay leveraged warehouse

During H1 2023, the Group set up a warehouse special purpose vehicle ("SPV"), for the purposes of scaling up the FlexiPay product through bank borrowings. The vehicle is consolidated by the Group as a consequence of it having control through the design of the vehicle and ability to influence the returns and exposure to the majority of the variability of the cash flows generated by the vehicle. As a result the underlying lines of credit and borrowings through the senior lending facility in the vehicle are also consolidated. The interest and other fees associated with the borrowing facility are presented within cost of funds. Details of the borrowing facility terms are outlined in note 12.

ii) Unwind of US SPV

In April 2023, Funding Circle exercised the call rights associated with the ownership of the unrated junior residual tranches of Small Business Lending Trust 2020-A's bonds in the US. This resulted in Funding Circle buying out the remaining bondholders. The Group continues to consolidate 100% of the previously securitised SME loans, which 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.

All the Group's securitisation SPVs have now been unwound and all bond liabilities have now been repaid.

iii) Sale of SME loans (other)

In February 2023, commercial loans in the US which had been temporarily funded by the Group with the intention of selling onwards and were held at fair value through profit and loss, were sold to a third party investor for £30.6 million.

2. Changes in significant accounting policies

With the exception of the below, the accounting policies, methods of computation and presentation adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Re-presentation of interest income on cash and cash equivalents and impact on alternative performance measures

The business uses its cash resources where it makes the platform stronger. As a result, the Group historically invested in warehouse and securitisation vehicles (which are now largely unwound, with the exception of the FlexiPay warehouse), co-invested alongside investors and more recently in the FlexiPay product. Where cash is not invested in these areas, it is held at banks and in money market funds earning interest. Given its use is integral to the business and the Group is now earning interest through various mechanisms, we now show the interest we earn on bank deposits, money market funds and on client money, previously shown in Finance Income, in Interest Income within Operating Income. Finance costs and profit/(loss) from share of associates are now presented within Other costs as these are not considered material. The comparative financial presentation has been re-presented accordingly with an additional £0.5 million presented in interest income previously presented in finance income, £0.4 million presented within other costs, £0.5 million of which was previously presented within finance costs and £0.1 million credit which was previously presented in share of net profit from associates. The condensed consolidated statement of cash flows and note 15 have also been re-presented to mirror this with interest earned now forming part of cash flows from operating activities which were previously disclosed as investing activities, with the comparative period represented with £0.5 million included within cash flows from operations previously within cash flows from investing activities.

The Group's definition of the alternative performance measure, Adjusted EBITDA, has consequently also been adjusted to take account of this re-presentation. The definition used is now profit for the period before finance costs (being the discount unwind on lease liabilities), taxation, depreciation, amortisation and impairment ("AEBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items. The comparative period AEBITDA is re-presented higher by £0.6 million including the representation of interest income on bank deposits and share of net profit from associates.

3. Critical accounting estimates and judgments

The preparation of the consolidated interim 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 interim financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2022.

Critical judgements

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

As part of its asset-backed securitisation programmes in the past, and more recently in scaling up the FlexiPay product, the Group has established 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 notes or tranches of the SPVs, the Group is deemed to be exposed to the majority of the variability of the returns of those vehicles and controls them, and therefore consolidates them. Where this proportional interest is reduced, the Group considers whether the vehicles should be deconsolidated.

b) Loans originated through the platform

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

Key sources of estimation uncertainty

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

a) Fair value of financial instruments (note 14)

At 30 June 2023, the carrying value of the Group's financial assets held at fair value was £197.5 million (31 December 2022: £219.4 million).

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

Since 31 December 2022 the assumptions related to estimating fair value have remained consistent, with expected increases in defaults due to the inflationary cost pressures experienced by small businesses and their customers in the foreseeable macroeconomic environment. However, there has been favourable observed performance with lower defaults and stable recoveries. This has led to a lower lifetime cumulative default expectation and a higher relative estimation of fair value compared to the carrying value of the loans than at 31 December 2022.

This has been partially offset by increased discount rates used to discount the estimated cash flows, primarily driven by increases in the risk free rate, due to central bank interest rate rises in order to curb inflationary pressures. This in turn has led to a lower relative estimation of fair value compared to carrying value of the loans.

With respect to investments in trusts and co-investments, where the Group holds a small pari-passu co-investment structured through leveraged warehouse vehicles which are majority owned by the majority equity investor, the increase in interest rates over the last year decreased the estimated fair value in these structures. This was caused by floating rate interest paid on senior borrowing facilities within the vehicle expected to decrease the returns to the equity holders compared to previous expectations. The macroeconomic stress assumptions utilised are consistent with those used at 31 December 2022. The nature of the vehicles is such that, while the loans may be government guaranteed, an uptick in defaults in combination with higher borrowing costs will still reduce the lifetime return to the equity holder and the inbuilt mechanisms of the vehicles which prioritise protection of repayments to the senior lender could lead to cash flowing to the equity holder later and as a result the estimated fair value of the investment has decreased.

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

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

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value

SME loans – (securitised)	28.8	Lifetime cumulative default rate as % of original	US 14.5% and 11.2%[1] UK 6.6%[1]	A change in the lifetime cumulative default rate would have the following impact: US SPV1[1]: +24/-12 bps would decrease/increase fair value by £(0.3) million/ £0.2 million respectively. US SPV2[1]: +53/-27 bps would decrease/increase fair value by £(1.1) million/ £0.5 million respectively. UK: +8/-26 bps would decrease/increase fair value by £(0.2) million/ £0.3 million respectively.
Investments in Trusts and co-investments	25.0	Lifetime cumulative default rate as % of original	Blended: 16.0%	A change in the blended lifetime cumulative default rate by +100/-440 bps would decrease/increase fair value by £(0.5) million/ £2.2 million 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 legacy securitisation vehicle loans. Separate sensitivities to default rates for the US legacy securitisation vehicle loans represent the respective seasoning of the loans and the different reasonably possible range of outcomes. All default definitions are 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 default definitions previously utilised were 'synthetic', 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, but were amended after the loans were sold from the respective SPV.

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)	28.8	Risk-adjusted discount rate	US 15.8% UK 20.1%	A change in the discount rate by +/-200 bps would decrease/increase fair value by £0.7 million.
Investments in Trusts and co-investments	25.0	Risk-adjusted discount rate	9.0% to 22.2%	A change in the discount rate by +/-200 bps would decrease/increase fair value by £0.8 million.

It is considered that the range of reasonably possible outcomes in relation to the discount rates used is presented above and, as a result, the fair value of the assets could materially diverge from management's estimate.

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

b) Expected credit loss impairment of FlexiPay lines of credit (notes 13, 14 and 18)

At 30 June 2023 the Group held £33.6 million of drawn FlexiPay lines of credit and £78.5 million of undrawn lines of credit, gross of expected credit loss impairment allowances.

While other financial assets of the Group are held at amortised cost, the FlexiPay lines of credit are the most sensitive to estimation uncertainty due to the higher balance outstanding and more limited historic data.

An expected credit loss impairment allowance is held against the lines of credit of £4.2 million (£3.1m related to drawn lines of credit and £1.1 million related to undrawn).

The Group estimates the expected credit loss allowance following IFRS 9 through modelling the exposure at default based on observed trends related to the overall line of credit facility and the proportion drawn at the time of default. The probability of default is estimated utilising observed trends and combining these with forward looking information including different macro-economic scenarios which are probability weighted. The loss given default is driven by assumptions regarding the level of recoveries collected after defaults occur.

The area most sensitive to estimation uncertainty is the probability of default related to stage 1 lines of credit and the probability weighting of the forward looking scenarios utilised. Currently a baseline scenario, upside scenario and downside scenario are utilised which are probability weighted 60% baseline, 20% upside and 20% downside which provide a blended stage 1 probability of default of 6.9%. If 100% probability weighting were to be applied to the upside scenario the probability of default related to stage 1 lines of credit would decrease by 330bps to 3.6% and the expected credit loss impairment provision would decrease by £1.1 million (£0.6 million on drawn lines of credit and £0.5 million on undrawn lines of credit). If a 100% probability weighting were to be applied to the downside scenario, the stage 1 probability of default would increase 114bps to 8.0%, the expected credit loss impairment would increase by £0.4 million (£0.2 million on drawn lines of credit and £0.2 million on undrawn lines of credit). It is considered that the above sensitivities represent the range of reasonably possible outcomes in relation to the probability of default on stage 1 FlexiPay lines of credit.

4. Segmental information

IFRS 8 Operating Segments requires the Group to determine its operating segments based on information which is used internally for decision making. Based on the internal reporting information and management structures within the Group, it has been determined that there are four operating segments, three of which are term 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 term loan businesses in Germany and the Netherlands.

The GLT measures the performance of each segment by reference to a non-GAAP measure, Adjusted EBITDA, which is defined as profit for the period before finance costs (being the discount unwind on lease liabilities), taxation, depreciation, amortisation and impairments ("AEBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items. Together with profit before tax, Adjusted EBITDA is a key measure of Group performance as it allows better comparability of the underlying performance of the business. The segment reporting, including Adjusted EBITDA, excludes the impact of the Group's transfer pricing arrangements as this is not information presented to, or used by, the CODM in decision making or the allocation of resources.

Net income/(loss)	**30 June 2023**					30 June 2022 (re-presented see note 2)				
	Term loans			**FlexiPay**		Term loans			FlexiPay	
	United Kingdom	**United States**	**Other**	**United Kingdom**	**Total**	United Kingdom	United States	Other	United Kingdom	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Transaction fees	29.6	12.1	-	-	41.7	31.9	8.8	-	-	40.7
Servicing fees	20.2	1.6	0.2	-	22.0	22.8	1.0	0.4	-	24.2
Other fees	2.8	0.1	0.1	-	3.0	0.5	0.2	0.2	-	0.9
Interest Income (including FlexiPay)	2.8	0.7	-	2.3	5.8	0.4	0.1	0.2	0.4	1.1
Operating income	**55.4**	**14.5**	**0.3**	**2.3**	**72.5**	55.6	10.1	0.8	0.4	66.9
Net investment income	**1.7**	**2.4**	**-**	**-**	**4.1**	6.7	4.2	-	-	10.9
Total income	**57.1**	**16.9**	**0.3**	**2.3**	**76.6**	62.3	14.3	0.8	0.4	77.8
Fair value gains/(losses)	0.4	3.0	-	-	3.4	(4.0)	5.5	-	-	1.5
Cost of funds	-	-	-	(0.4)	(0.4)	-	-	-	-	-
Net income	**57.5**	**19.9**	**0.3**	**1.9**	**79.6**	58.3	19.8	0.8	0.4	79.3
Adjusted EBITDA	**8.8**	**(3.8)**	**(0.2)**	**(7.8)**	**(3.0)**	8.1	2.0	1.8	(0.7)	11.2
Discount unwind on lease liabilities	**(0.1)**	**(0.3)**	**-**	**-**	**(0.4)**	(0.1)	(0.4)	-	-	(0.5)
Depreciation, amortisation & impairment	**(5.5)**	**(4.3)**	**-**	**(0.5)**	**(10.3)**	(5.3)	(1.6)	-	-	(6.9)
Share-based payments and social security costs	**(1.8)**	**(0.7)**	**-**	**(0.3)**	**(2.8)**	(1.9)	(0.4)	-	-	(2.3)
Foreign exchange gains/(losses)	**-**	**(0.1)**	**-**	**-**	**(0.1)**	0.1	-	-	-	0.1
Profit/(loss) before tax	**1.4**	**(9.2)**	**(0.2)**	**(8.6)**	**(16.6)**	0.9	(0.4)	1.8	(0.7)	1.6

5. Operating expenses

	30 June 2023 £m	30 June 2022 £m (re-presented)
Depreciation and amortisation	**8.3**	6.9
Impairment of ROU assets and net investment in subleases[1]	**2.0**	-
Rental income and other recharges	**(0.2)**	(0.5)
Employment costs (including contractors)	**44.8**	41.4
Marketing costs (excluding employee costs)	**23.9**	17.3
Data and technology costs	**4.6**	4.9
(Charge)/credit for expected credit losses	**1.9**	(1.0)
Other expenses	**10.9**	8.7
Total operating expenses	**96.2**	77.7

1. Certain right-of-use assets related to the US San Francisco office have been sublet under operating and financing subleases. Due to a reduction in market values since inception of the sublets, the estimated cash flows expected on expiry of the existing sublets and expectations regarding the negotiation of further sublets are lower and as a result an impairment of £2.0 million was recognised in the six months ended 30 June 2023 (30 June 2022: £nil) against the right-of-use assets and the net investment in sublease. The impairment is disclosed in the condensed consolidated statement of comprehensive income within depreciation, amortisation and impairment.

6. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The estimated average annual tax rate used for the six months to 30 June 2023 (excluding the tax charge on Research and Development Expenditure Credits (RDEC)) is (8.07%), compared to 351.62% for the six months to 30 June 2022, which was primarily driven by the initial recognition in 2022 of a deferred tax asset. The major components of income tax expense in the condensed consolidated statement of comprehensive income are:

	30 June 2023 £m	30 June 2022 £m
Current tax		
Corporation taxation	0.3	0.7
Total current tax	0.3	0.7
Deferred tax		
Deferred taxation	1.2	(6.2)
Total deferred tax	1.2	(6.2)
Total tax charge/(credit)	1.5	(5.5)

The above tax charge includes the amount of tax deducted from the gross RDEC credit receivable for 2023 of £0.2 million (2022: £0.1 million) and the state taxes of £0.1 million (2022: £0.7 million) expected to be paid in the US on taxable profits for the six months to 30 June 2023.

The Group has unrelieved tax losses of £185.8m that are available for offset against future taxable profits (2022: £172.2m).

Based on the Group's current financial projections and current transfer pricing arrangements, the estimate of the deferred tax asset in respect of a portion of these losses arising in the US was £5.4 million at 30 June 2023 (June 2022: £6.2 million, December 2022: £6.9 million).

7. (Loss) / Earnings per share

	30 June 2023 £m	30 June 2022 £m
(Loss)/profit for the period	(18.1)	7.1
Basic weighted average number of ordinary shares in issue (million)	344.8	354.2
Basic (Loss)/profit per share	(5.2)p	2.0p
(Loss)/profit for the period	(18.1)	7.1
Diluted weighted average number of ordinary shares in issue (million)	344.8	387.3
Diluted (loss)/profit per share	(5.2)p	1.8p

8. Intangible assets

	Capitalised development costs £m	Computer software £m	Total £m
Net book value			
At 31 December 2022	28.0	0.2	28.2
At 30 June 2023	**28.2**	**0.2**	**28.4**

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

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

	30 June 2023 £m	31 December 2022 £m
Property, plant and equipment (owned)	2.3	2.7
Right-of-use assets	4.5	7.3
	6.8	10.0

Certain right-of-use assets related to the US San Francisco office have been sublet under an operating sublease. Due to a further weakening of the San Francisco commercial property market, the estimated cash flows on the sublet no longer support the carrying value of the asset. As a result, an impairment of £1.2 million was recognised in the six months ended 30 June 2023 (31 December 2022: £1.8 million).

Lease liabilities

	30 June 2023 £m	31 December 2022 £m
Current	**7.3**	7.2
Non-current	**8.9**	12.6
Total	**16.2**	19.8

10. Interest in associates

The Group holds 8.3% of Funding Circle UK SME Direct Lending Fund I at 30 June 2023 (31 December 2022 and 30 June 2022: 8.3%) which is accounted for as investment in associates.

During 2022 Funding Circle European Private Fund DAC I sold its remaining loans and the corresponding investment in associates held by the Group was reduced to nil (30 June 2022: 23.6%).

The Group's share of profit from associates in the period was £0.1 million (30 June 2022: share of profit of £0.1 million), the Group received capital distributions of £0.6 million (30 June 2022: £1.8 million) and dividends of £0.1 million (30 June 2022: £0.2 million).

11. SME loans and lines of credit

	30 June 2023 £m	31 December 2022 £m
Non-current		
SME loans (other) – amortised cost	**10.2**	24.8
Investment in trusts and co-investments– FVTPL	**25.0**	28.7
Total non-current	**35.2**	53.5
Current		
Lines of credit – amortised cost	**30.5**	16.0
SME loans (other) – FVTPL	**1.0**	20.9
SME loans (warehouse) – FVTPL	**1.5**	2.4
SME loans (securitised) – FVTPL	**28.8**	45.8
Total Current	**61.8**	85.1
Total	**97.0**	138.6

12. Borrowings

During 2023, in the US the Group has a drawn balance of £6.1 million (31 December 2022: £22.6 million) on the PPP Liquidity Facility available from the Federal Reserve Bank at a fixed interest rate of 0.35% to fund PPP loans held on the Group's balance sheet. The balance of both loans and borrowings reduces as the loans are forgiven by the SBA.

During 2023 the Group set up a leveraged warehouse for the purposes of scaling up the FlexiPay product with a total committed facility of up to £150m which can be upsized to £325m. The drawn balance on the facility at 30 June 2023 was £30.8m. Interest is charged on the drawn balance at SONIA plus a margin, together with a commitment fee, and the facility matures in May 2024 unless extended.

13. Provisions and other liabilities

	Dilapidation	Loan repurchase	Restructuring	Other[1]	Total
	£m	£m	£m	£m	£m
At 1 January 2022	0.6	2.2	0.2	1.1	4.1
Exchange differences	-	-	-	-	-
Additional provision/liability	0.2	-	-	0.4	0.6
Amount utilised	-	(0.7)	(0.2)	(0.3)	(1.2)
Amount reversed	-	(0.4)	-	(0.7)	(1.1)
At 30 June 2022	0.8	1.1	-	0.5	2.4
Exchange differences	-	0.1	-	0.1	0.2
Additional provision/liability	0.3	-	-	0.1	0.4
Amount utilised	-	(0.2)	-	0.1	(0.1)
Amount reversed	-	(0.5)	-	(0.3)	(0.8)
At 31 December 2022	1.1	0.5	-	0.5	2.1
Exchange differences	-	-	-	-	-
Additional provision/liability	-	0.3	-	0.8	1.1
Amount utilised	-	(0.3)	-	(0.2)	(0.5)
Amount reversed	-	(0.2)	-	-	(0.2)
At 30 June 2023	1.1	0.3	-	1.1	2.5

[1]Other includes provisions for operational buybacks in the comparative period. £1.1 million (31 December 2022: £0.3 million) of expected credit loss impairment allowance related to undrawn FlexiPay lines of credit is included within Other.

Current and non-current

	30 June 2023	31 December 2022
	£m	£m
Current	**1.4**	1.0
Non-current	**1.1**	1.1
Total	**2.5**	2.1

14. Financial risk management

The Group’s financial risks and risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year to 31 December 2022.

Financial risks arising from financial instruments are analysed into credit risk, liquidity risk, market risk (including currency risk, interest rate risk and other price risk) and foreign exchange risk. These condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. Details of how these risks are managed are discussed in the Funding Circle Holdings plc’s financial statements for the year ended 31 December 2022.

There has not been a significant change in the Group’s financial risk management processes or policies since the year end. The assumptions used in determining the level of defaults and recoveries which determine the fair value of loans remain consistent with those used at 31 December 2022.

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

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

Categorisation of financial assets and financial liabilities

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

	30 June 2023				**31 December 2022**			
	Fair value through profit and loss	**Amortised cost**	**Other**	**Total**	Fair value through profit and loss	Amortised cost	Other	**Total**
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
SME loans (other)	1.0	10.2	-	11.2	20.9	24.8	-	45.7
SME loans (warehouse)	1.5	-	-	1.5	2.4	-	-	2.4
SME loans (securitised)	28.8	-	-	28.8	45.8	-	-	45.8
Lines of credit	-	30.5	-	30.5	-	16.0	-	16.0
Investment in trusts and co-investments	25.0	-	-	25.0	28.7	-	-	28.7
Trade and other receivables	-	14.4	-	14.4	-	16.2	-	16.2
Cash and cash equivalents	141.2	62.3	-	203.5	121.6	56.1	-	177.7
	197.5	117.4	-	314.9	219.4	113.1	-	332.5
Liabilities								
Trade and other payables	-	(25.1)	-	(25.1)	-	(12.2)	-	(12.2)
Loan repurchase liability	-	-	(0.3)	(0.3)	-	-	(0.5)	(0.5)
Bank borrowings	-	(36.9)	-	(36.9)	-	(22.6)	-	(22.6)
Bonds	-	-	-	-	-	(23.7)	-	(23.7)
Lease liabilities	-	(16.2)	-	(16.2)	-	(19.8)	-	(19.8)
	-	(78.2)	(0.3)	(78.5)	-	(78.3)	(0.5)	(78.8)

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

Other financial instruments

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

Financial instruments measured at fair value

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

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

The fair value hierarchy has the following levels:

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

The definitions, details of the inputs and the valuation techniques in determining the fair values of the Group's financial instruments are shown in the Funding Circle Holdings plc financial statements for the year to 31 December 2022.

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

There have been no changes in the valuation techniques for any of the Group's financial instruments held at fair value in each of the periods presented. Details regarding the assumptions used within such valuations are detailed in note 3.

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

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements (year ended 31 December 2022: none).

	Fair value measurement using					
	30 June 2023			**31 December 2022**		
	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Quoted prices in active markets (level 1)	Significant observable Inputs (level 2)	Significant unobservable inputs (level 3)
	£m	**£m**	**£m**	£m	£m	£m
Financial assets						
SME loans (warehouse)	**-**	**-**	**1.5**	-	-	2.4
SME loans (securitised)	**-**	**-**	**28.8**	-	-	45.8
SME loans (other)	**-**	**-**	**1.0**	-	-	20.9
Investment in trusts and co-investments	**-**	**-**	**25.0**	-	-	28.7
Cash and cash equivalents	**141.2**	**-**	**-**	121.6	-	-
	141.2	**-**	**56.3**	121.6	-	97.8

The fair value of all SME loans held at fair value have 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 £1.5 million at 30 June 2023 (31 December 2022: £2.4 million).

The fair value of SME loans (securitised) represents loan assets in the securitisation vehicles and legacy loans of this nature. The estimated fair value and carrying amount of the SME loans (securitised) was £28.8 million at 30 June 2023 (31 December 2022: £45.8 million).

Investment in trusts and co-investments represents the Group's investment in the trusts and other vehicles used to fund CBILS, RLS and certain 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 estimated fair value and carrying amount of the investment in trusts and co-investments was £25.0 million at 30 June 2023 (31 December 2022: £28.7 million).

The fair value of SME loans (other) represents loan assets temporarily funded by the Group in relation to the relaunch of Core loans. The estimated fair value and carrying amount of the SME loans (other) was £1.0 million at 30 June 2023 (31 December 2022: £20.9 million).

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

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

	SME loans (warehouse) £m	**SME loans (Securitised) £m**	**Bonds (unrated) £m**	**Investment in trusts and co-investments £m**	**SME loans (other) £m**
Balance as at 1 January 2022	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 (loss)/gain on the change in fair value of financial instruments at fair value through profit or loss	2.0	14.7	(3.5)	(7.0)	(1.4)
Foreign exchange (loss)/gain	-	9.3	-	0.2	0.5
Balance as at 31 December 2022	2.4	45.8	-	28.7	20.9
Additions	**-**	**-**	**-**	**-**	**12.0**
Repayments	**(0.9)**	**(19.7)**	**-**	**(3.4)**	**(0.5)**
Disposal	**-**	**-**	**-**	**-**	**(30.6)**
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit or loss	**0.1**	**3.9**	**-**	**(0.2)**	**(0.4)**
Foreign exchange loss	**(0.1)**	**(1.2)**	**-**	**(0.1)**	**(0.4)**
Balance as at 30 June 2023	**1.5**	**28.8**	**-**	**25.0**	**1.0**

Financial risk factors

Credit risk

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

	30 June 2023 £m	31 December 2022 £m
Non-current		
SME loans (other)	**10.2**	24.8
Investment in trusts and co-investments	**25.0**	28.7
Trade and other receivables:		
- Other receivables	**1.8**	3.4
Current		
SME loans (Other)	**1.0**	20.9
SME loans (warehouse)	**1.5**	2.4
SME loans (securitised)	**28.8**	45.8
Lines of credit	**30.5**	16.0
Trade and other receivables		
- Trade receivables	**0.9**	0.4
- Other receivables	**5.5**	5.3
- Accrued income	**3.9**	4.8
- Rent and other deposits	**2.3**	2.3
Cash and cash equivalents	**203.5**	177.7
Total gross credit risk exposure	**314.9**	332.5
Less bank borrowings and bond liabilities[1]	**(36.9)**	(46.3)
Total net credit risk exposure	**278.0**	286.2

1. Included within bank borrowings are £6.1m (31 December 2022: £22.6 million) 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 13. The Group's maximum exposure to credit risk on this financial guarantee were every eligible loan required to be bought back would be £1.3 million (31 December 2022: £2.8 million).

Additionally, an expected credit loss allowance related to undrawn lines of credit on the FlexiPay product of £1.1 million (31 December 2022: £0.3 million) 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 £78.5 million (31 December 2022: £41.6 million).

SME loans (warehouse) and SME loans (securitised) relate to the underlying pool of SME loans which were in securitisation vehicles or which are loans which are from the legacy warehouses and SPVs but have since been purchased or novated into other Funding Circle entities, but remain held at FVTPL with the business model of holding the loans for sale. The majority of lines of credit are held within a bankruptcy remote vehicle including bank borrowings. If the lines of credit were to all default, the senior lender would not receive all their money back. Therefore the overall exposure of the Group for this investment is the Group's net investment in the lines of credit which is after taking account of third party borrowings.

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. SME loans (other) includes £1.0 million (31 December 2022: £20.9 million) loans originated by the Group with the intention of selling onwards, which are held at FVTPL and are therefore disclosed as current.

Lines of credit includes £30.5 million (2022: £16.0 million) of drawn amounts through the FlexiPay product, enabling businesses to spread UK invoices or payments over three months with the initial payment made on a borrowers behalf.

The gross principal value of SME loans (other) is £24.5 million (2022: £39.6 million) and drawn lines of credit held at amortised cost is £33.6 million (2022: £17.6 million), totalling £58.1 million (2022: £57.2 million), and an allowance for expected credit losses of £14.3 million (2022: £14.8 million) and £3.1 million (2022: £1.6 million) respectively, totalling £17.4 million (2022: £16.4 million), is held against these loans and drawn lines of credit as detailed below.

An expected credit loss impairment charge of £1.2 million (30 June 2022: £0.7 million credit) was recognised through the statement of comprehensive income in the period to 30 June 2023 within (charge)/credit for expected credit losses.

Additionally, an expected credit loss impairment charge was recognised relating to undrawn FlexiPay lines of credit of £0.8 million (30 June 2022: £0.1 million) and an expected credit loss impairment credit of £0.1 million (30 June 2022: £0.4 million) related to the loan repurchase liability were recognised as detailed in notes 13 and 18.

	Performing:	**Underperforming:**	**Non-performing:**	**POCI**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Lifetime ECL**	
	£m	**£m**	**£m**	**£m**	**£m**
At 1 January 2022	0.6	0.3	1.1	13.3	15.3
Impairment against new lending and purchased assets	-	-	-	0.7	0.7
Exchange differences	-	-	-	0.7	0.7
Impairment against loans transferred from/(to) performing	-	0.1	(0.3)	-	(0.2)
Loans repaid	(0.1)	(0.3)	(0.3)	(0.7)	(1.4)
Change in probability of default	-	-	(0.1)	(0.3)	(0.4)
At 30 June 2022	0.5	0.1	0.4	13.7	14.7
Impairment against new lending and purchased assets	0.1	-	-	0.4	0.5
Exchange differences	0.1	-	0.1	0.3	0.5
Impairment against loans transferred from/(to) performing	(0.1)	0.2	0.6	-	0.7
Loans repaid	(0.2)	-	(0.2)	(0.5)	(0.9)
Change in probability of default	0.7	-	-	0.2	0.9
At 31 December 2022	1.1	0.3	0.9	14.1	16.4
Impairment against new lending and purchased assets	4.8	0.1	—	0.3	**5.2**
Exchange differences	—	—	—	(0.4)	**(0.4)**
Impairment against loans transferred from /(to) performing	(0.1)	0.2	1.0	—	**1.1**
Loans repaid	(4.0)	—	(0.1)	(0.6)	**(4.7)**
Change in probability of default or loss given default assumptions	(0.5)	—	—	0.3	**(0.2)**
At 30 June 2023	**1.3**	**0.6**	**1.8**	**13.7**	**17.4**

As at 31 December 2022	Expected credit loss coverage (%)	Basis for recognition of expected credit loss impairment	Gross lines of credit and SME loans (other) (£m)	Expected credit loss impairment (£m)	Net carrying amount (£m)
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 –Purchased or originated as credit impaired (90+ days overdue)	94.2	Lifetime ECL	15.0	(14.1)	0.9
		Total	57.2	(16.4)	40.8
As at 30 June 2023					
Performing (due in 30 days or less)	**3.9**	12 month ECL	**37.3**	**(1.3)**	**36.0**
Underperforming (31–90 days overdue)	**14.8**	Lifetime ECL	**3.7**	**(0.6)**	**3.1**
Non-performing (90+ days overdue)	**61.2**	Lifetime ECL	**3.0**	**(1.8)**	**1.2**
POCI –Purchased or originated as credit impaired (90+ days overdue)	**96.0**	Lifetime ECL	**14.1**	**(13.7)**	**0.4**
		Total	**58.1**	**(17.4)**	**40.7**

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

Impairment of net investment in subleases:
Certain right-of-use assets related to the US San Francisco office have been sublet under a financing sublease and are represented as net investments in subleases within other receivables. Due to a reduction in market values since inception of the sublet, the estimated cash flows expected on expiry of the existing sublet and expectations of further sublet are lower and as a result an impairment of £0.8 million was recognised in the six months ended 30 June 2023 (31 December 2022: £nil). The impairment is disclosed in the condensed consolidated statement of comprehensive income within depreciation, amortisation and impairment.

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

The Group's liquidity position is monitored and reviewed on an ongoing basis by the Directors. As the business model is to sell investments in loans held at fair value through profit and loss where an attractive price can be found, these are classified as current assets.

Interest rate risk
a) Interest rate risk sensitivity analysis – fixed rate
Interest on SME loans and on the PPPLF borrowings and bond liabilities (in the US) is fixed until the maturity of the investment and is not impacted by market rate changes. All remaining US bond liabilities were repaid during the period to 30 June 2023.

b) Interest rate risk sensitivity analysis – floating rate
Interest on cash and cash equivalent balances is subject to movements in base rates. The Directors monitor interest rate risk and note that there have recently been sustained rate rises observed. The Directors believe that any reasonable increase in the base rate would not significantly impact the Group's cash.

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

Interest on bank borrowings related to the FlexiPay lines of credit are subject to movements in SONIA. The Group has partially protected itself through the use of an interest rate Cap with a strike price of 6.5% and a notional amount that increases in line with the projected draw downs on the senior borrowing facility, however this was entered into after the 30 June 2023 balance sheet date.

If SONIA were to increase by 100bps, based on the drawn balance at 30 June 2023, the annualised interest expense recognised in borrowing costs would increase by £0.3m (excluding any impact of the interest rate cap subsequently entered into).

The Group's co-investment in trusts are partly through leveraged warehouse vehicles where the Group is a minority equity investor. The senior borrowing facilities utilised in these vehicles pay interest on borrowings in priority to payments to the equity investors at SONIA plus a margin. As a result of the increase in SONIA and anticipated future increases, the increased borrowing costs have partly reduced the expected cash returns to the equity investors of the investment held at fair value through profit and loss. The impact is recognised in fair value gains and losses in the statement of comprehensive income. Some, but not all of the vehicles, have interest rate caps within their structures which can mitigate the impact of future rate rises. Further increases in SONIA or the expected future increases in SONIA could reduce the fair value further. A 100bps increase in projected SONIA rates over the life of the trusts would reduce the fair value of the co-investments in trusts at 30 June 2023 by £0.3 million.

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ("IBORs") has become a priority for global regulators. The Group's contracts that reference LIBOR have been amended to reference the alternative benchmark which is complete for the UK and the US.

15. Cash (outflow)/inflow from operations

	30 June 2023	30 June 2022 (Re-presented)[1]
	£m	£m
(Loss)/profit before taxation	(16.6)	1.6
Adjustments for:		
Depreciation of property, plant and equipment	2.3	2.5
Amortisation of intangible assets	6.0	4.4
Impairment of ROU assets and investment in sublease	2.0	-
Interest payable	0.4	0.5
Non-cash employee benefits expense – share based payments and associated social security costs	2.8	2.5
Fair value adjustments	(3.4)	(1.5)
Movement in restructuring provision (exceptional item)	-	(0.2)
Movement in loan repurchase liability	(0.2)	(1.1)
Movement in other provisions	0.6	(0.4)
Share of gains of associates	(0.1)	(0.1)
Other non-cash movements	1.1	(0.6)
Changes in working capital:		
Movement in trade and other receivables	(4.7)	7.0
Movement in trade and other payables	14.8	(5.6)
Tax paid	(0.3)	(0.7)
Originations of lines of credit	(90.2)	(16.5)
Cash receipts from lines of credit	74.4	10.9
Net cash (outflow)/inflow from operating activities	**(11.1)**	**2.7**

1 The comparative period to 30 June 2022 has been re-presented to present 'interest received' which was previously a component of investing activities as a component of operating income to mirror the re-presentation of interest on cash and cash equivalents within 'Interest income' which was previously presented within 'Finance Income' on the consolidated statement of comprehensive income. As a result it is not disclosed separately above.

Analysis of changes in liabilities from financing activities

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

	1 January 2023	Cash flows	Exchange movements	Other non-cash movements	30 June 2023
	£m	£m	£m	£m	£m
Bank borrowings	(22.6)	(14.9)	0.6	-	(36.9)
Bonds	(23.7)	23.5	0.5	(0.3)	-
Lease liabilities	(19.8)	3.6	0.4	(0.4)	(16.2)
Liabilities from financing activities	(66.1)	12.2	1.5	(0.7)	(53.1)

16. Cash and cash equivalents

	30 June 2023 £m	31 December 2022 £m
Cash and cash equivalents	203.5	177.7

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

Included within cash and cash equivalents above is a total of £31.0 million (31 December 2022: £12.1 million) in cash which is restricted in use. Of this: i) £1.1 million (31 December 2022: £1.1 million) is held in the event of rental payment defaults; ii) £nil (31 December 2022: £2.9 million) is held in the securitisation SPVs which has been collected for on-payment to bond holders and is therefore restricted in its use; iii) a further £20.2 million (31 December 2022: £8.1 million) of cash is held which is restricted in use to repaying investors in CBILS and RLS loans and paying CBILS and RLS-related costs to the UK government and iv) a further 9.7 million (31 December 2022: £nil) of cash is held which is restricted for use in the FlexiPay warehouse.

At 30 June 2023, cash equivalents relating to money market funds totalled £141.2 million (31 December 2022: £121.6 million).

17. Related party transactions

The basis of remuneration of key management personnel remains consistent with that disclosed in the 2022 Annual Report and Accounts.

18. Contingent liabilities and commitments

As part of the ongoing business, the Group has operational requirements with its investors. At any point in time, it is possible that a particular investor may expect the Group to buy back their loan if the terms of business had not been fully complied with. Where a loan is bought back it is presented within Investment in SME loans (other) on the face of the consolidated balance sheet and held at amortised cost under IFRS 9.

In common with other businesses, the Group is involved from time to time in disputes in the ordinary course of business. There are no active cases expected to have a material adverse financial impact on the Group.

The Group has commitments related to undrawn amounts on issued FlexiPay lines of credit. At 30 June 2023, there were undrawn commitments of £78.5 million (31 December 2022: £41.6 million). An expected credit loss impairment allowance is held within other provisions by the Group of £1.1 million (2022: £0.3 million) in relation to the estimated credit losses the Group may be exposed to on these undrawn lines of credit.

19. Subsequent events

There have been no subsequent events since the balance sheet date.

Glossary

Alternative performance measures

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition
Income statement			
Adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure	Refer to Finance Review.	Profit for the period before finance costs (being the discount unwind on lease liabilities), taxation, depreciation, amortisation and impairment ("AEBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items. The definition of AEBITDA has been updated and the comparative re-presented as described in Note 2.
Investment AEBITDA and Operating AEBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure	Refer to Finance Review.	Investment AEBITDA is defined as investment income, investment expense and fair value adjustments and operating AEBITDA represents AEBITDA excluding investment AEBITDA.
Net investment income	Net income	Refer to performance highlights	Net investment income, represents investment income less investment expense.
Exceptional items	None	n/a	Items which the Group excludes from Adjusted EBITDA in order to present a measure of the Group's performance. Each item is considered to be significant in nature or size and is treated consistently between periods. Excluding these items from profit metrics provides the reader with additional performance information on the business across the business as it is consistent with how information is reported to the Board and GLT.
Cash flow			
Free cash flow	Cash generated from operating activities	Refer to Finance Review.	Net cash flows from operating activities plus the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows along with movements in FlexiPay lines of credit.

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

Our conclusion

We have reviewed Funding Circle Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the Half Year 2023 Results of Funding Circle Holdings plc for the 6 month period ended 30 June 2023 (the "period").

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

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 June 2023;
- the Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half Year 2023 Results of Funding Circle Holdings plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

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

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

We have read the other information contained in the Half Year 2023 Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half Year 2023 Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Half Year 2023 Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Half Year 2023 Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Half Year 2023 Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
7 September 2023