Funding Circle Holdings plc
Annual Report and Accounts 2022
Company registration number 07123934

Helping small businesses win

Small businesses are the engine room of the global economy.

We help them grow.

Across the globe, SMEs aren't given the finance they need to grow. We're here to change that, by making finance accessible, quick and simple. Business owners are forward thinkers. They're determined. They stand up to make a difference and work hard to make it happen. They create jobs, support local communities and drive the economy forward.

That's why we care about helping them, and why we focus 100% on helping SMEs get the funding they need to win.

Our story so far

£15bn
lent through our platform since 2010

>135,000
SMEs helped since 2010

£3.7bn
loans under management

#1
SME lending platform in the UK

Highlights

A year focused on enabling SMEs to borrow, pay and spend

- £15.2 billion credit extended to more than 135,000 SMEs across the UK and the US since 2010
- SMEs accessed Funding Circle finance through our loan product, Marketplace offering and, in the UK, our new product FlexiPay
- Continued to support SMEs through uncertain economic environment

We continued to deliver an unrivalled customer experience powered by data and technology

- 70% of applications in the UK receiving instant decisions
- Application in six minutes, decision in as little as nine seconds and money in borrower's account in 24 hours
- Strong customer satisfaction with Group NPS at 77 for 2022

Early execution against the three strategic pillars of our plan

- Attract more businesses – through the launch of Lending as a Service ("LaaS") in the US with two partners
- *Say yes to more businesses* – by introducing super prime loans in the US to serve lower risk customers, and short-term loans in the UK for younger businesses
- Become #1 in new products – by expanding our new product, FlexiPay, including the beta launch of the FlexiPay card feature to help solve more SME problems

Resilient funding and loan performance

- Continued institutional investor demand to fund loans – with new forward flow agreements in the UK and US
- Loan returns remain robust and attractive

2022 financial performance in line with expectations

- Group: £6.8 million AEBITDA, £(14.7) million operating loss
- UK Loans: £11.7 million AEBITDA, £(3.7) million operating loss
- US Loans: £(3.7) million AEBITDA, £(9.7) million operating loss
- Other Loans: £2.8 million AEBITDA, £2.7 million operating profit
- FlexiPay: £(4.0) million AEBITDA, £(4.0) million operating loss

Culture and diversity are fundamental to our success

- 87% of Circlers would recommend Funding Circle as a great place to work
- We maintained our highest-ever *employee engagement score of* 73% in our annual employee survey
- 92% of Circlers believe Funding Circle demonstrates it values diversity
- We launched our new value – Obsess Over The Customer – reinforcing our focus on the customer across the organisation

Our performance

Operational

Originations

£1.5bn

2021: £2.3bn

Loans under management

£3.7bn

2021: £4.5bn

Statutory financial

Total income

£148.7m

2021: £206.9m

(Loss)/profit before tax

£(12.9)m

2021: £64.1m

Alternative performance measures (APM)

AEBITDA

£6.8m

2021: £91.8m

The Strategic Report was approved by the Board on 2 March 2023.

Lisa Jacobs
Chief Executive Officer

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Strategic report

Funding Circle at a glance

Helping power SMEs' growth

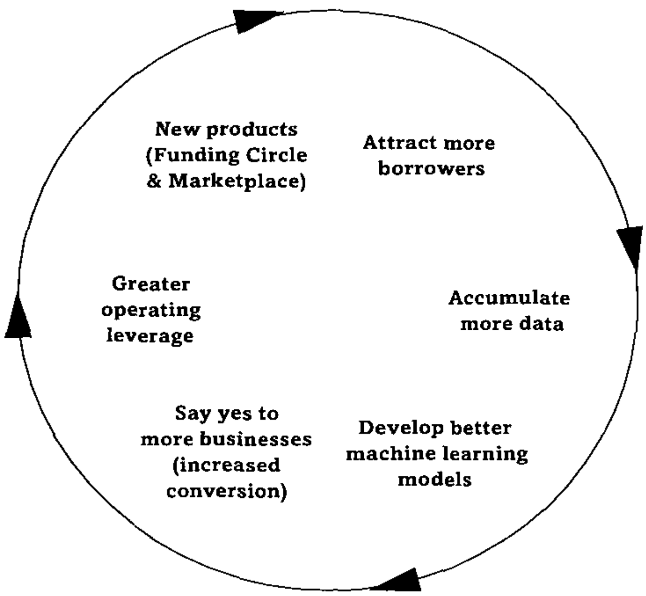
Our mission is to build the place where small businesses get the funding they need to win.

We do this by delivering an unrivalled customer experience powered by data and technology. Over the past decade, we've built a technology platform that is revolutionising SME lending. Thanks to our instant decision capabilities, SMEs in the UK can complete a lending application in minutes and receive a lending decision in seconds, accessing funding quickly and at an affordable rate.

To date we've helped over 135,000 SMEs access more than £15 billion. This finance is helping to create jobs and power the economy.

Our flywheel for growth

Our technology platform enables us to test, learn and adapt to provide better finance solutions for SMEs and help solve more small business problems We innovate and iterate in a continuous feedback loop, committed to driving improvements in machine learning, technology and data.



"We've taken out three term loans with Funding Circle and had a fantastic experience. The funding really helped us grow the business, the application process is quick and easy. and since they introduced us to FlexiPay, we love using it."

Nikola Southern,
Founder, Grace & Thorn

We deliver an unrivalled experience for small businesses, powered by data and technology

>2bn
data points in data lake (Group)

3x
better risk discrimination than bureau scores

6 min
application time (UK loans)

70%
instant decision (UK loans)

77
customer NPS (Group)

4.6
Trustpilot score (UK)

What we do

We enable small businesses to borrow, pay and spend

Borrow
Longer term

Pay
Monthly

Spend
Daily

Thousands of small businesses

Direct
Partner
Broker
LaaS

come to Funding Circle

Technology platform
Data advantage
Institutional capital aggregation
Customer experience

to get the funding they need to win

Super prime loans
Prime loans
Near prime loans
FlexiPay
Marketplace

Our channels

Direct
Customers come direct to Funding Circle via our website

Partner
Customers are introduced to Funding Circle by a third party

Broker
Customers are introduced to Funding Circle by a broker who manages their client's relationship with us

Lending as a Service
Partners leverage our lending proposition to offer loans to their customers

Where we operate

United Kingdom
- Founded in the UK in 2010, Funding Circle is now the leading lending platform for SMEs
- We've helped more than 80,000 businesses access over £11 billion in finance

United States
- Having entered the US market in 2013, Funding Circle has a material and growing presence
- We've helped more than 40,000 businesses access over $4 billion in finance

Our products

Prime loans
Business loans from £10,000 to £500,000 available from six months to six years

Super prime loans
A superior pricing proposition for lower risk customers in the US

Near prime loans
Available to businesses that have been trading for one year or more in the UK

FlexiPay
Our new line of credit product in the UK

Marketplace
Connecting borrowers with lenders in the market offering products beyond our range

Why Funding Circle?

What makes Funding Circle unique?

Funding Circle is a lending platform where SMEs come to borrow and institutional investors come to lend.

SMEs are a key driver of communities, society and economies. Yet access to the finance they need to support their aspirations and operations is often restricted, with SMEs making up around half of UK and US GDP, but only a fraction of bank lending (<2% in our markets).

For SME borrowers, Funding Circle provides a leading-edge customer experience (Group Net Promoter Score of 77), from a trusted provider (Trustpilot score of 4.6), delivered through its technology, machine learning, and data science, coupled with a supportive human touch. Our term loans and flexible credit solutions continue to help customers access the affordable funding they need to thrive, both quickly and conveniently.

For banks, asset managers and other institutional funding providers, supporting SMEs is hard, due largely to the diversity of SMEs, their wide-ranging and complex risks, fragmented and unpredictable data and significant credit exposure. Our platform facilitates access to an alternative asset class in an underserved market, and delivers both robust and attractive returns, as well as reduced cost of funding for leveraged investments.

Established in the UK in 2010, and now the leading lending platform to SMEs, the Group also has a material and growing presence in the US. Globally, Funding Circle has already provided over £15 billion of loans to c.135,000 businesses. With total addressable markets for SME lending of >£100 billion in the UK and >$300 billion in the US, the opportunity is large.

Financially, we have demonstrated both resilience and scalability through recent cycles. We have a fee-based income model, mainly derived from transaction fees from borrowers (for loan originations), servicing fees from institutional investors (for managing

Our sustainable differentiation comes from our data and technology:

- A growing data lake of over two billion data points, including proprietary data from over one million loan applications, and behavioural and performance data from over 190,000 loans
- Helping us to develop and apply ever more accurate modelling, (now 8th generation in the UK and 5th in the US)
- Leading to more instant lending decisions (>70%), optimising borrower access to finance and improving customer experience and conversion
- While also outperforming traditional bureau scores by as much as three times, and delivering strong loan returns; demonstrating a proven platform
- Delivering a competitive advantage earned from over 12 years of SME lending

77%
Group Net Promoter Score

4.6
Trustpilot score

c.£15bn
Loans provided globally to date

>£100bn
Total addressable market for SME lending in the UK

>$300bn
Total addressable market for SME lending in the US

their loans) and FlexiPay fees from customers. Additionally, we earn investment income from mainly legacy investments with our balance sheet only used within strict guardrails to support our business development.

The business is at an exciting inflection point. High operational gearing, through scalability of our fintech platform, improves profitability and returns on equity from the strong growth opportunities for the business. This is driven particularly by our medium-term strategy, which focuses on three key areas:

- **Attract more businesses** — by extending our lending distribution channels: including use of embedded partner solutions and Lending as a Service;
- **Say yes to more businesses** — by improving both SME coverage and borrower conversion: including use of our Marketplace for lending that falls outside our normal parameters; new customer segments (such as super prime borrowers in the US, and near prime in the UK); and improvements in process; and
- **#1 in new products** — leveraging the platform through a multi-product approach, including our FlexiPay product (line of credit and card).

Environmental, social and governance ("ESG") and sustainability are being further embedded into the core of our business. With Board level oversight and executive level ESG management incentives, our global ESG framework is being driven by efforts focused on four key areas:

- climate change and environment;
- diversity, equity and inclusion;
- social impact; and
- governance and risk management.

Our strong balance sheet and conservative capital structure allow us to fully execute our growth strategy and to create value for all our stakeholders: borrowers, institutional investors, communities, governments and regulators, partners and suppliers, employees (Circlers) and shareholders.

Building brand awareness

Our first sports sponsorship

In 2022, Funding Circle announced its first ever sports sponsorship with Premiership Rugby to increase brand awareness and reach more potential borrowers. The partnership will focus on championing SMEs that support the rugby clubs and their local communities.

Many Premiership Rugby players go on to create successful businesses and the entrepreneurial spirit of the players and clubs is something that Premiership Rugby celebrates across the league.

Funding Circle kicked off a two-year sponsorship across all 11 clubs in the league in September 2022. With branding at over 140 games during the 2022/23 season including those broadcast live on BT Sport and ITV, our partnership provides an opportunity to reach more potential borrowers and increase consideration of Funding Circle as the place for businesses to get the funding they need to win.

Focusing on how Funding Circle helps businesses get a competitive edge, our activation will ramp up in 2023 with a content series showcasing three celebrity player-run businesses, fronted by former England rugby union player David Flatman. There will be competitions throughout the season for SMEs to win tickets, match hospitality, and three businesses will win a business growth package including a £10,000 marketing grant plus pass-through sponsorship rights at a local fixture.

14.5m

Expected audience reach over the 2022/23 season

35%

of SMEs more likely to consider Funding Circle as a result of the partnership

Chair's statement

Continuing to support SMEs and positioning ourselves for growth in 2023

2022 in review

At the time of writing my annual statement to shareholders in 2022, we were looking forward to the return of more normalised markets, after a protracted period of uncertainty created by Brexit and then the pandemic. At the same time, I expressed concern about the events unfolding in Ukraine; it seemed that Annual Report writing time had a habit of coinciding with periods of pivotal uncertainty for our country or for the world.

So, while elements of our markets returned to normal with the winding down of Covid-19-related government support for SME financing, geopolitical tensions instead took centre stage to strain the macroeconomic outlook leading to significant rises in the rate of inflation. SMEs are often disproportionately impacted by inflation, and their corporate histories do not extend back to times when inflation was the norm. It is only natural that the huge economic uncertainty that largely resulted from the crisis in Ukraine led to hesitancy and caution on the part of our customers as the year progressed.

In spite of the challenges, our SME customers continued to demonstrate their agility and resilience. In turn, Funding Circle teams continue to work hard to support our customers. This community of effort and spirit has so far resulted in low levels of default and financial stress for our borrowers.

As a result, we have continued to deliver positive loan returns on our loan product, so our institutional investors continue to support our model and more are joining the community. I hope that by the end of this period, our ability to withstand recessionary periods and to continue through the cycle to serve the SMEs, which are so vital to the success of the economy, is in no doubt.

Progressing our medium-term plan

Last year I referred to our medium-term plan, and the enhancement of our core strengths in term loan products through new products and capabilities in both the UK and the US. It is logical that with our high Net Promoter Score, SMEs trust and like to use Funding Circle, and we in turn can offer more solutions to those customers. It is equally apparent that customers prefer a range of funding solutions to address their short-term needs or longer-term plans. Our plan, starting with FlexiPay, will see our customers not only being able to borrow on our platform, but pay and spend too.

Another key component of our medium-term plan is the development of our Lending as a Service ("LaaS") business in the US. This embeds our core skills in technology and credit data into the highly fragmented US banks sector – combining our skills with the banks' customer bases offers huge potential for growth.

From a Funding Circle perspective, these new products will not only enable us to reach more SMEs, but also to add incremental paths to grow our business.

It is still early days, but I am pleased with the progress we have made to date, in particular with FlexiPay, and am confident that the Board is steering our new product growth with an appropriate balance of caution and ambition.

Thanks to the team

2022 saw a return to office life, for some of our team for the first time in their careers! In a difficult external environment, my thanks go to all of our Circlers who have helped to deliver this set of results. Our people have shown flexibility, creativity and resilience. They are all dedicated and passionate about the customer base that we support and this dedication has again been much in evidence through these challenging economic times.

Our new CEO and the Board

This has been Lisa Jacobs' first year at the helm as CEO. Since the beginning of the year there have been a number of changes at the senior leadership levels as Lisa has built a team around her, including experienced new leaders of our FlexiPay, Technology, US Loans and Capital Markets teams. This whole process has been one of evolution rather than revolution and I commend Lisa for the seamless and successful transition that marked her first year as CEO.

Samir Desai has stepped back from the role of CEO and the Board welcomed him as a Non-Executive Director. As one would expect, Samir's contribution has been thoughtful and engaged – we have been fortunate to draw on his expertise and his perspectives encourage productive discussion.

Another exciting year ahead

This is the first time since Funding Circle went public when there are no obvious new "known unknowns" in the air.

The "knowns", however, will be challenging, especially in the UK market, which is still forecast to be in recession for much of the year ahead. We have therefore prepared and planned for a period of subdued economic activity and we may even be in a place where we are surprised on the upside in 2023.

I remain very optimistic in spite of the obvious economic challenges. As we enter a tough year for the economy, we are in many ways stronger than ever before. We have proven with our term loans product that even through tough times in the cycle it is attractive to both borrowers and lenders. And we enter 2023 with a balanced and exciting mix of an established, profitable business in the UK alongside two businesses, in FlexiPay and US Loans, which are really well positioned for exciting growth.

We have a truly inspiring medium-term plan and I am confident that 2023 will see us continue to deliver on that plan.

Andrew Learoyd
Chair
2 March 2023

Supporting businesses

History in the baking

Anna Tyler and Felix Harkness
ANNA Cake Couture

Business partners Anna and Felix opened their first cake shop and cafe in 2015. A Funding Circle loan is now helping them take their business up a tier.

Anna Tyler started her career as a wedding cake designer, before joining forces with Felix Harkness to open a cake shop and cafe in Bristol in 2015. They wanted to offer the Clifton community hot drinks and sweet treats, and at the same time give customers the chance to watch wedding cakes being made before their eyes.

After five successful years, and despite the challenges faced by the hospitality industry during the pandemic, they seized the opportunity to pivot the business online in 2020. Launching an online platform, they began offering luxury gifts such as cookies, macarons and cupcakes, and expanded the business nationwide.

The pair's success can be seen in the numbers, with turnover expected to increase from c.£400k in 2020, to a projected £850k during 2023; meanwhile the team has grown from 15 to 25 staff. To grow the business further, the duo recently came to Funding Circle to secure a term loan to expand their kitchen, create more jobs and open a new office. 2023 is expected to be history in the baking for ANNA Cake Couture – watch this space!

Chief Executive Officer's statement

We're stronger than ever before, and the best is yet to come

2022 was my first year as Chief Executive Officer of Funding Circle. Having joined a decade ago (as Circler number 42), I've been part of the team of committed and passionate Circlers building Funding Circle from a fintech start-up to a company that has helped more than 135,000 SMEs with over £15 billion in lending. While the business has evolved, our mission remains the same. We exist to help small businesses get the funding they need to win. We do this by delivering an unrivalled customer experience powered by data and technology. This has a big impact in terms of job creation, economic growth and tax receipts. This was why I joined Funding Circle, and why our team of Circlers are proud to come to work every day.

But we're just getting started There are thousands more SMEs that remain underserved by the traditional financial services market. In 2022, we set out an ambitious medium-term growth strategy, expanding the number of ways we help small businesses win. We are diversifying and expanding our products and distribution channels beyond our term loan and direct distribution. This will enable SMEs to borrow, pay and spend wherever they are – through direct, intermediated and embedded distribution channels.

Financial and operational overview

2022 was a challenging year given the broader economic environment. We've been agile in responding – ensuring that we are serving our SMEs responsibly and delivering robust loan returns. Importantly, we delivered resilient loan returns and continued to see demand to fund loans.

In September, we set out our expectation that Group income would be in the range of £140–£155 million, with positive AEBITDA. For 2022, we reported total income of £149 million and AEBITDA of £6.8 million. As expected, total income was lower year on year due to the economic environment and the unwinding of the various government loan schemes, which we supported during the pandemic. Lower total income level translated into an operating loss of £14.7 million. We ended the year with net assets and cash of £284 million and £178 million, respectively.

Market-leading technology continues to deliver a superior customer experience

Over the last 12 years we have innovated, built and honed a platform to revolutionise SME lending through our data and technology. Our risk models are three times better at discriminating risk than standard bureau scores, and 70% of our UK applications receive an instant decision. Our speed of lending decisions, tailored customer propositions and superior customer experience lead to strong satisfaction scores and high repeat rates among borrowers.

I've continued to enjoy spending time with our borrowers this year and seeing the impact our loans have on their businesses In the summer I met David Cohen, a repeat Funding Circle borrower and founder of FlowerStation, which celebrated its 20th anniversary in 2022; having grown from one store to multiple locations across London Before Christmas, I also visited Pure Caffe – a coffee and coffee equipment wholesaler – to learn more about the business, and do a bit of Christmas shopping! I continue to be enthralled by their stories of entrepreneurship, creativity and resilience. Our credit products play a small but very important part in their stories – the fuel to their fire – whether that is enabling their growth, or helping them to manage their cash flow through FlexiPay. I'd like to thank them for all their support.

An exciting inflection point

Looking ahead, we will continue to support the credit needs of the SMEs we serve, through an expanded product set, increased engagement and more distribution channels in pursuit of our mission.

Our medium-term plan is focused around growth through three strategic pillars:

- 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 personalised Funding Circle products and further integration with third party lenders; and
- Be #1 in new products: using our capabilities to enter new markets where we can develop market-leading products.

We've already made good progress executing against this strategy:

Attract more businesses – in the US we have launched Lending as a Service with two financial services partners, helping us reach new audiences; in the UK, we signed our first sports sponsorship deal with Premiership

Rugby, to increase our brand awareness and reach more potential borrowers.

Say yes to more businesses – in the US, we're offering a super prime product for more established businesses; in the UK, we now offer a near prime loan product that also supports younger businesses. We've also expanded our Marketplace to refer businesses to other third party lenders.

Be #1 in new products – following a beta launch in Q4 2021, we've expanded FlexiPay to new customer segments. Engagement has been high and it has been used to make over 20,000 payments to date. At the end of 2022, we beta launched our FlexiPay card, which will enable SMEs to meet their daily expenditure needs.

Thriving through economic uncertainty

We expect the economic uncertainty to persist into 2023. Whilst this brings challenges for us and the SMEs that we serve, it also brings opportunities. We will continue to navigate this period with agility to take advantage of those opportunities.

Our loan performance continues to be stable and attractive. Both last year and during the pandemic, we saw our SMEs demonstrate incredible resilience. I am confident that they will do so again.

We will maintain our core focus on executing our medium-term strategy, transforming our business into something that is more important in our customers' lives and more valuable for our shareholders.

It's been quite the adventure for Funding Circle so far, but there is so much more to come. We're just getting started. Thank you to all our Circlers for making it happen!

Lisa Jacobs
Chief Executive Officer
2 March 2023

Supporting businesses

Business in bloom

Nikola Southern
Grace & Thorn

Grace & Thorn opened its flagship store in Hackney in 2011 with a vision to help people see flowers differently. Today, a third Funding Circle loan, together with a FlexiPay line of credit, is helping the business flourish.

Business owner Nik was mesmerised by flowers and plants from a young age. Her love for flowers began with a fiddle-leaf fig tree in the front room of her grandparents' home. Growing up in the city, Nik was in awe of how a tree existed within the walls of a house rather than in a park. Tired of seeing uninspiring rows of houseplants in plastic brown pots next to flowers forced into tight bouquets struggling to breathe, Nik wanted to bring out the best in plants, and in 2011, Grace & Thorn was born.

The business initially kicked off in Nik's living room, followed by a shared studio space, which it eventually outgrew. Today, alongside the main shop in Hackney, Nik also manages her studio in London Fields. The business has become an established community staple, one that is renowned for its off-beat approach to floral and plant styling. The florists offer the community unusual, wild and abundant floral arrangements, fresh and dried flowers, houseplants, pots and lifestyle products for all occasions.

In 2017, Nik wanted to give customers the opportunity to create their own unique bouquets. This is when she first came to Funding Circle and secured a term loan to launch a range of workshops at Grace & Thorn's studio. She also branched out into offering ready-to-wear wedding flowers alongside small and large-scale event services.

Grace & Thorn's relationship with Funding Circle has since strengthened and in 2022 the business secured a third loan to acquire a new studio. Nik was also one of the first customers to use a FlexiPay line of credit to support the business' cash flow. This has allowed Grace & Thorn to plan for events and workshops in advance, without worrying about upfront financing. FlexiPay has also enabled the business to focus on creative development, as the team has more time to plan efficiently and, ultimately, to generate more revenue.

Our market

Small businesses are more resilient following the pandemic

Small businesses have emerged from the pandemic with increased resilience, and because of this are well-placed to navigate today's challenging economic environment. While for now many SMEs are adopting a wait and see approach with regards to their immediate investment intentions, over the medium term, growth ambitions remain largely intact.

UK market

SMEs: an important driver of the economy

Our customers may be small at the individual level, but as a collective, SMEs make a vital contribution to the UK economy. Based on the results of our 2022 UK SME survey, we estimate Funding Circle's outstanding lending contributed £6.9 billion to UK gross domestic product (GDP), supported 106,000 jobs and generated £1.4 billion in tax receipts. Extrapolate these numbers to include the wider SME lending sector, and SMEs' importance to the UK economy is clear.

2022: a new set of economic challenges

The challenges of the pandemic provided important lessons for UK SMEs, with 58% of SMEs reporting their experience has made their businesses more resilient. This tallies with data from the ONS Business Insights and Conditions Survey (BICS), which shows that businesses' confidence of survival was ten percentage points higher compared to H2 2021.

As the year progressed, 2022 presented a new test for SMEs, including one that has supplanted the pandemic as the primary concern of smaller businesses – increasing costs. In Q2 2022, 40% of SMEs reported rising prices were a major barrier to their businesses. The impact of these challenges on SMEs and their response to the threat they pose can be broadly categorised using the same three behaviour groups that emerged during the pandemic:

- **Survivors** – those most negatively impacted by the economic environment;
- **Hedgers** – those focused on precautionary measures, such as building up or maintaining cash reserves; and
- **Thrivers** – those which continued to adapt, invest and grow their businesses.

These groups continued to respond to 2022's challenges in different ways.

Survivors, Hedgers and Thrivers

SMEs have generally seen an improvement in their income as the effects of the pandemic have waned. However, growing revenues for **survivors** have largely been offset by rising costs. This has meant some businesses, particularly those at the smaller end of the SME spectrum, are beginning to run their savings down. Despite this, cash holdings across the general SME population remain high compared to pre-pandemic levels. According to the ONS BICS Survey, 42% of SMEs were holding at least six months' cash reserves by the end of 2022, an increase of 2% from H2 2021.

Hedgers have typically delayed pressing ahead with near-term investment activity in response to the challenging economic conditions, preferring instead to maintain elevated cash balances and adopt a wait-and-see approach with regards to how the economy develops before taking action. Based on our survey findings, 50% of SMEs said they had paused, delayed or cancelled a business investment in 2022 due to the macro environment. This was mirrored by a fall in the share of SMEs expecting to increase investment levels in the short term to 22.7% in Q2 2022, down from 32.5% in Q4 2021.

As with the pandemic, a core cohort of **Thrivers** remain committed to growing their business, and medium-term growth ambitions have remained stable. Research by the Federation of Small Businesses estimates two thirds of SMEs were planning to invest in their businesses by 2024, suggesting any reining-in of short-term investment activity will likely be temporary.

Overall, 2022 saw a thriver-to-hedger shift in UK SME behaviour in response to the economic conditions. As these pressures recede and economic conditions improve, this shift is likely to reverse.

SME credit conditions tightened in the second half of 2022

As the Bank of England base rate increased throughout the year, SME lenders tightened their lending criteria in response to the economic environment. Funding Circle was no different, with rising interest rates and a prudent approach to originations resulting in fewer loans originated through the platform than during the peak of Government lending schemes. Even with this, more than £1 billion of vital funding was provided through Funding Circle's platform to SMEs located in every corner of the UK, including businesses located in each one of the UK's 650 parliamentary constituencies.

US market

American small business remain optimistic in the face of market challenges

The US economy rebounded in 2021 as the pandemic subsided and restrictions lifted, with GDP exceeding pre-pandemic levels. The recovering economy has presented US SMEs with several challenges, including supply chain disruptions, labour shortages, and rising costs. Despite these tests, 2022 has seen a record number of new US SMEs created. This growth has been driven mostly by businesses in transportation and warehousing, accommodation and food services, health care and social assistance, and retail trade[1]

While the interest rate outlook remains uncertain, 2023 has started with strong consumer demand, historically low unemployment and easing supply chains. While hiring remains a challenge, SMEs are optimistic.

The rising interest rate environment has seen some small business lenders exit the market, and a general tightening of credit criteria. Despite this, US borrower demand for Funding Circle loans remains strong and credit performance is stable. Research suggests this demand is set to continue; 89% of US SMEs feel underserved by their primary bank and are considering changing providers to a digital alternative[2], while 59% have unmet funding needs[3].

1 Economic Innovation Group
2 Capgemini.
3 Fed Small Business

Supporting businesses

Funding good karma

Jeff Treichel
PaperKarma

Jeff took on US mobile app business PaperKarma in 2017. A Funding Circle term loan helped the company survive and thrive through the pandemic and beyond.

PaperKarma is a mobile app that automatically and continuously unsubscribes users from junk and unwanted catalogues. With over 1 million subscribers, users upload a picture of their unwanted mailer to the app, and image recognition technology will identify the distributor and remove them from the mailing list. The app helps users take back control of their mailbox and cut clutter, while saving trees and positively impacting the environment too.

Denver-based CEO Jeff acquired the business in 2017 and by February 2020, he wanted to secure financing to help the business launch new features and redesign the app to drive greater conversion and revenue. PaperKarma was introduced to Funding Circle through one of our Marketplace partners and secured a term loan, just weeks before pandemic lockdowns began in the US.

PaperKarma was able to continue to build and plan through uncertain times, retaining its technology and product team throughout, and with the funding laying the groundwork for continued success today. Over 8 million opt-out requests have been sent by the app which has a five-star rating. Big plans continue at pace, and we can't wait to see what's next for PaperKarma!

Technology and data are at the heart of our SME lending platform

Our technology and data have reinvented SME lending. Thanks to our platform, SMEs have been able to secure the funding they need to win. But we can do more. That's why our platform is constantly evolving so that it delivers more solutions to SMEs more quickly and more seamlessly.

A platform that has revolutionised the SME lending market

Since Funding Circle was established in 2010, we've helped over 135,000 SMEs secure term loans. In total, over £15 billion has been lent through our platform and we've processed more than one million applications. None of this would have been possible were it not for our focus on data and technology.

The above figures demonstrate the level of demand there is among SMEs for our lending solutions, highlighting how SMEs have historically been underserved by traditional lenders.

It is easy to see why this has been the case. The number of SMEs is large. Their business activities are diverse. Their funding needs are varied. The available dataset upon which to understand these businesses is also fragmented. This can make it difficult to assess the risks involved and to build models that are predictive and accurate.

The result? Banks tend to focus their lending on larger businesses, those that operate in specific areas and/or on their existing customers.

Therefore, SMEs tend to experience lengthy and bureaucratic application processes, high decline rates and limited loan sizes. In short, SMEs have found it difficult to get funding.

That is until we launched our platform. Combining technology, data and machine learning, our platform overcomes the issues that have historically held back both the SME lending market and the SMEs themselves.

77 NPS
across the UK and the US

Our data lake

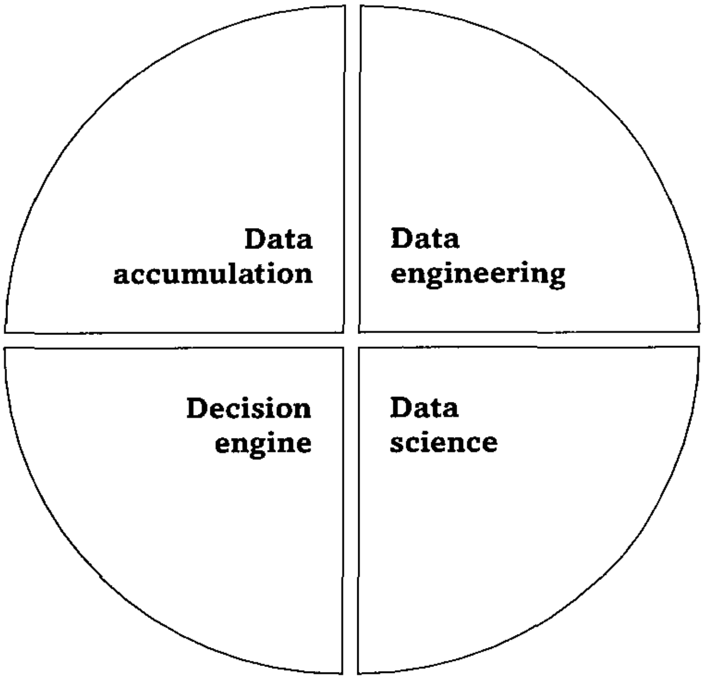
29m
businesses

>2bn
data points

Our unique capabilities are shaped by:

12+ years of experience	**£15bn lent to SMEs**	**>1m applications**	**29m businesses in our data lake**	**2bn data points**	**8th generation UK risk models**

How our 4D system works



Data accumulation

We continue to gather a proportion of our data from publicly available sources. What has changed over the years is the ever-increasing amount of bespoke data we collect from our own analysis and from our engagement with customers. Put these two sources together and our data provides unique insights into customer behaviours over the entire life cycle of a loan – from application to repayment.

Data engineering

We're not just data gatherers, however. We put our data to work so that our predictive models can make accurate risk decisions. All this data therefore needs to be cleaned, managed and maintained. This is where our data engineering tools and teams come in.

Incoming data is absorbed into our data lake in real time. We use inputs gained from a variety of sources such as bank statements, financial results and balance sheets. The output is a digital and structured database that is in a workable format for our data scientists.

Data science

The database is then leveraged by our data scientists who crunch the numbers looking for patterns and other insights that drive our platform's learning capabilities and further improves the accuracy of our statistical and predictive models. As part of this process, scenario simulation is undertaken along with back-testing, validation and monitoring.

Our latest generation models are so advanced that they have the capability to predict whether a customer will accept or reject a loan offer. This is not just a "nice to have" functionality, it informs customer targeting initiatives. Above all, however, the models feed the decision engine.

Decision engine:

Powered by the data, the models and the machine learning, the decision engine enables not only lending decisions to be optimised in real time but also the experience of the borrower to be enhanced by generating a customer journey that is based around questions and data that are specific to them.

Technology and data continued

Together, these processes and components lead to:

Marketing optimisation

Predictive models lead to accurate targeting and relevant offers; this ensures our marketing is effective and efficient, so we don't waste time, energy or money.

Increased conversion rates

Targeted offers, informed by predictive analysis, mean we can say yes to more businesses.

Strong loan returns

Through careful customer selection and tight risk parameters, we're able to ensure a good return on investment.

Long-term customer engagement

By personalising the customer experience, we increase the likelihood of repeat borrowing and product use, leading to deeper and longer-term relationships.

UK loan applications

70%

of our applications receive an instant decision

6 mins

application time

9 secs

decision time

What our technology does

Today, we have the capability for SMEs in the UK to receive an instant lending decision. More than 70% of our UK loan applications receive this instant decision. Loan applications can be made in as little as six minutes, a decision can be received in as little as nine seconds, and borrowers are able to access funds within 24 hours.

Of course, it wasn't always like this. When we first started, we had to rely on publicly available data. We too deployed manual processes. But over time our data pool has increased – today there are 29 million businesses and over 2 billion data points in our data lake, giving us one of the most established datasets for a platform lender. Our technology has evolved and grown too so that our platform has become the increasingly automated offering it is today, one that is easy, fast and flexible for our customers.

We recognise, however, that there may be applications that are more complex than others or borrowers that may want to discuss aspects of their application. So, we have teams in place who add the human touch – which when combined with our powerful technology, data and machine learning helps us say yes to as many businesses as possible.

Data gathering is just the start

Data accumulation; data engineering, data science; decision engine – our "4D" system is the enabler behind the Funding Circle platform which, in a little over a decade, has revolutionised SME lending.

It is a system that is centred around the continual expansion of our decision making capabilities. The more data points we gather and the more our technology manages and leverages the data, the more our models learn. The more our models learn, the more accurate and predictive they become, which enables us to innovate and improve our offering further. This not only helps attract more borrowers and institutional investors to our platform, but also expands our data and increases our competitive advantage. This is what we call the Funding Circle Flywheel.

Today, our UK platform is using 8th generation risk models. Borrowers benefit from having an easy, fast and flexible experience, as evidenced by the strong customer satisfaction scores and high repeat rates we consistently see. Institutional investors benefit from the positive and secure returns they receive. Funding Circle benefits because both borrowers and institutional investors continue to come to us, enabling us to grow as we help more SMEs.

And thanks to the ever-improving quality of our data, alongside the development of our new product capabilities, the Funding Circle Flywheel is not only getting faster, it is getting bigger and enabling us to meet more borrower needs.

A platform that is evolving to deliver more

We have achieved a lot, but there is much more we can and want to do. In addition to rolling out new iterations of our risk models that are more powerful and predictive than what came before, we want to offer SMEs more products that solve more of the problems they face. We also want to continue to improve the customer experience and deliver the benefits of our solutions to SMEs more quickly.

So, while 2022 saw our engineers enable and support the roll out of our expanding suite of FlexiPay new product features, they also focused on projects that play a key role in realising the full potential of our platform. Projects undertaken during the year, such as making more use of established cloud-based applications and SaaS providers, have been designed to free up the time and resources of our engineers so that they can concentrate on further developing our proprietary technology and software delivery. The overarching aim is to speed up the time it takes for the value we create to reach our customers.

Putting more in the cloud offers other benefits too – costs and security for example. It allows us to be more agile so that we are able to respond more quickly when needed. But above all, it helps us to focus on what we do best, delivering proprietary technologies and solutions to more and more SMEs.

Introducing Lending as a Service ("LaaS")

What is Lending as a Service?

Funding Circle's offering allows financial institutions to give their customers a fully integrated, digital end-to-end borrowing experience without the significant investment and resources required to build or buy their own platform. By leveraging Funding Circle's technology and expertise, financial institutions can quickly and easily enter the digital lending market, offer loans to their business customers and earn attractive interest and fee revenue.

Why institutions choose us:

- More than a decade's experience originating SME lending
- Technology-enabled product delivers superior customer experience with loan offers in <24 hours after document submission
- Minimal upfront cost or investment to launch a pilot
- Revenue share model drives profitability
- As simple as a turnkey solution to full integration

Our end-to-end SME lending solution for partners is unique to the market

Key: ● Funding Circle
● Financial institution
○ Services other providers offer

Customers

Marketing
- Data analytics
- Design support to identify target market segments to drive customer engagement through email, direct mail, embedded application, landing page, co-marketing and third party customer contact

Digital application
- Co-branded or white-labelled digital application accessible via dedicated landing page
- 6 minutes for borrower to complete
- Optional third party API integrations to seamlessly augment customer data

Sales
- Customers provided a dedicated Funding Circle account manager
- One-on-one support provided throughout the process
- Market leader in customer satisfaction

Underwriting
- Ten-year credit model performance delivering attractive returns
- Advanced underwriting technology combines risk models and expert human judgement
- Predicting future loan performance more accurately than conventional credit scoring

Operations
- Optional in-house collections and recoveries
- Automatic financial statement parsing

Loan offer and fulfilment
- Fully digital loan document delivery and execution

Funding
- Customers receive funding in as little as 48 hours after application approval
- Partners generate attractive revenue via interest income

Servicing
- Funding Circle can retain servicing for a low fixed fee
- Customers have access to online portal for self-servicing
- Market leader in customer satisfaction

New products and capabilities continued

Transforming into a multi-product lending platform for small businesses

We've had great success as a primarily single-product category company offering term loans – serving more than 135,000 SMEs over the years. We want to do the same as a multi-product company, by solving more of the funding challenges faced by SMEs and meeting more of their needs. To do this, we need to add new products to our offering and we made great progress in 2022 with FlexiPay.

FlexiPay is our new line of credit product that helps SMEs spread costs and manage their short-term cash flow needs. At the end of 2021, we beta launched FlexiPay to select customers, allowing them to pay invoices, bills and other business costs and repay over three months. During 2022 we opened up FlexiPay to a much broader base of existing and new customers, and at the end of the year we went on to beta launch our FlexiPay card. The card is another way for customers to use their FlexiPay line of credit, helping them to pay for everyday business expenses and make purchases.

Funding Circle is becoming the multi-product company we set out to build, one that enables businesses to not only borrow, but pay and spend as well. Our term loan product covers the borrow element in our Borrow-Pay-Spend ambition, for SMEs that are looking to make a longer-term investment in their business. FlexiPay now gives customers the ability to access credit to pay and spend too.

Introducing FlexiPay

FlexiPay is a line of credit that allows businesses to make purchases and then spread the cost over three months, paying back in three equal monthly instalments. It's designed to give businesses access to short-term cash flow when it's needed, allowing them to seize growth opportunities, deal with late payments or supply chain delays, or spread quarterly costs out monthly.

Customers can apply in minutes and receive an instant decision, with credit limits of £2,000 to £250,000. With no set-up or annual fees, customers only pay when they use it. We charge no interest, just a simple flat fee on each transaction, giving them flexibility while being able to plan with confidence.

An easy, fast, flexible product, FlexiPay enhances our reputation for designing finance products around the needs of SMEs. FlexiPay customers now have access to credit to pay, and during 2023 we'll enable more customers to use FlexiPay to spend as we expand our FlexiPay card beta trial too.

Helping businesses manage their cash flow

FlexiPay solves one of our customers' biggest pain points

We saw strong traction and growth with FlexiPay in 2022. From H1 2022 to H2 2022 we more than tripled the value of cumulative transactions made, with a growing base of both repeat and new customer transactions. Through 2022, we saw £60 million of FlexiPay transactions and we grew the customer base to more than 2,000 active accounts by the end of the year.

FlexiPay has now been used to make more than 20,000 transactions with 1.4 transactions per month for an active customer.

Looking ahead, we know that SME business-to-business payments represent a huge market opportunity and we see significant growth opportunity in this space. We will continue to scale FlexiPay in 2023 – including investment in new product features and the expansion of our FlexiPay card beta trial.

67%

of SMEs say cash flow is their biggest issue

Bacs research

FlexiPay enables SMEs to manage their cash flow by spreading the cost of payments

How does it work?

1. Apply online: instant decision
2. Get an approved line of credit for business payments
3. FlexiPay: pay supplier now
4. Repay over three months with 0% interest and a flat fee

"FlexiPay is a brilliant idea which will help bridge the gap between supplier payments and allow me to negotiate better with my suppliers. The application was simple and easy."

Carl Whetstone-Veitch, Director of Advanced Joinery

Embedded finance and partnerships

To help attract more businesses to Funding Circle, we launched our embedded finance solution, via an API, enabling partners to offer our loans within their platforms. In the UK during 2022, we established partnerships with Funding Options and Tide. We also partnered with Handepay, which directs customers to Funding Circle via a partner landing page. Momentum continues to build in early 2023, and we have launched partnerships with PayPoint, Tungsten, and Sage. In the US, we onboarded several new partners in 2022 including Lending Tree which launched at the end of the year. Lending Tree is one of the largest and longest serving digital marketplaces in the US.

An exciting inflection point

We are driven by our purpose to help SMEs win, because we believe they make a big difference to people, communities and the economy. Yet when it comes to accessing finance, a key growth enabler, they are underserved. Our mission is to build the place where SMEs get the funding they need to win. In 2022, to support our mission and growth strategy we launched a new medium-term plan focused on transforming our business into one which enables businesses to borrow, pay and spend.

Since we launched in 2010, we have revolutionised SME lending. But we're still just getting started. We know that so far we've just been scratching the surface, and we have attractive medium-term growth opportunities. Our medium-term plan is focused on delivering on these through a defined set of three strategic pillars and three core foundations.

Three strategic pillars

- 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 personalised 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.

Three core foundations

- Technology and data to enable innovation at pace: investing in our technology and ever-expanding data lake to deliver superior customer service and better meet the needs of SMEs.
- Scalable products and processes: serving more businesses through an expanded set of personalised Funding Circle products and further integration with third party lenders.
- High-performing teams executing brilliantly: investing in our people and our culture to make our business stronger and deliver on our strategy.

Attract more businesses

In the US, we launched our Lending as a Service ("LaaS") proposition. This enables our financial services partners to leverage our lending proposition to offer their own customers. Over a third of US SMEs have their primary banking relationship with one of the thousands of regional and community banks in the US, but many of these institutions are unable to offer SME loans.

LaaS enables us to partner with these financial institutions. Our partners gain a capability with high ease of implementation, and we gain a new distribution channel. Partners choose us for our end-to-end, technology-enabled capabilities, with robust and attractive returns and ease of implementation. We have rolled out LaaS with initial partners and will grow the proposition with new partners in the coming years.

We are in a strong position

Consistently strong customer satisfaction with high NPS

70% of UK applications receiving instant decisions

Market leadership position in the UK

Increase in online adoption and new data sources (Open Banking)

Strong and diverse funding relationships

In the UK, we've launched an API which enables partners to seamlessly integrate Funding Circle loans within their own website. We also launched our first sports sponsorship with Premiership Rugby. Focusing on championing SMEs which work alongside or behind the scenes of the league's clubs, we will increase our brand awareness and consideration.

Say yes to more businesses

We attract lots of businesses and want to help as many as possible secure funding. In 2022, we identified pockets of businesses we could better serve and created products to meet their needs.

In the UK, we launched a near prime product that also supports younger businesses. We also expanded our Marketplace offering – which connects our borrowers with other lenders in the market – to deliver products beyond our current range. In the US, we launched super prime loans, with a superior pricing proposition for lower risk customers.

We will continue to identify opportunities to serve more businesses through product expansion and personalisation, and third party integrations to meet borrower needs beyond our current range – such as larger loans, asset finance and invoice finance.

We continue to attract new institutional investors to the platform, delivering sustainable sources of capital to finance future lending. We continue to extend these relationships to an increasingly diversified pool of institutional investors, who we are able to call upon as market situations change.

#1 in new products

In 2022, FlexiPay, our new line of credit product that empowers SMEs to pay and spend, continued to grow strongly. UK customers used FlexiPay to make £60 million of transactions as we expanded into new customer segments. We beta launched our FlexiPay card feature in Q4 2022.

We have seen strong engagement and customer satisfaction from our customers so far, and we know that SME business-to-business payments represents a huge market opportunity. We will continue to scale FlexiPay in 2023 – including investment in new product features and the expansion of our FlexiPay card beta trial.

Technology and data to enable innovation at pace

Technology and data are at the heart of Funding Circle. Through ongoing investment in technology, we aim to continually improve our capacity to develop high-quality products, at pace, and execute our strategic priorities.

We will also continue to develop our data-centric culture and invest in the right tooling for advanced analytics.

Simultaneously, we will enhance our automation by increasing support for data producers and analysts, ensuring they can curate and leverage data to optimise value for customers.

Scalable products and processes

Our aim is to lend, service, partner and innovate at scale for our customers. We will continue to focus on putting the right processes and capabilities in place, so that we can deliver our core product at scale efficiently, while remaining agile to deliver new products that delight customers.

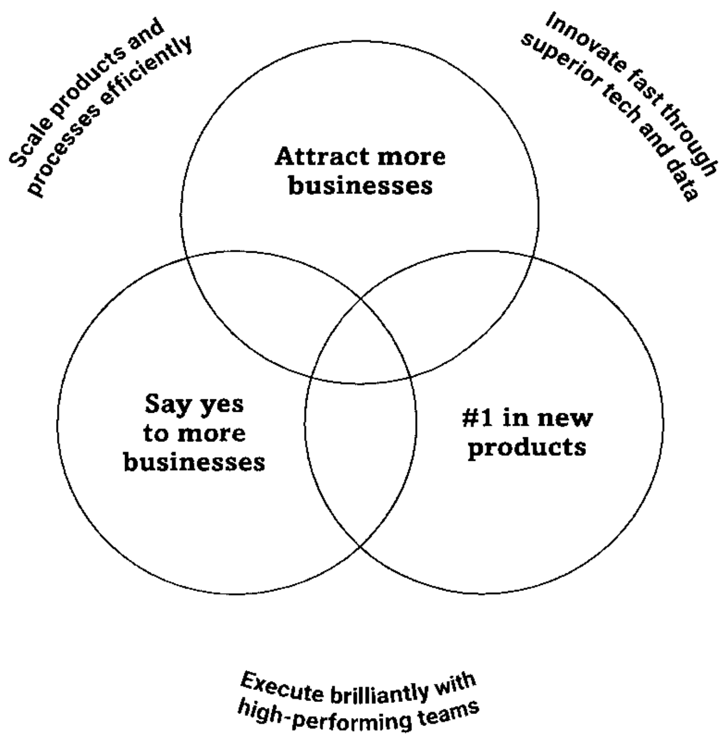
These efforts will ensure we deliver our medium-term plan with improved cost management, increased operational agility, enhanced predictability and greater, more efficient scaling potential.

High-performing teams that execute brilliantly

Our Circlers are our business; they are what makes the business stronger every day. We value our mission-led, values-driven culture at Funding Circle; we believe it is crucial to attract, retain and develop diverse high-performing teams that have the knowledge, skills and capabilities to execute against our strategy and serve our customers.

We have three core areas of focus:

- Building for the future: ensuring our organisational structure works and supports our multi-product model;
- Building skills for success: defining, acquiring and growing the right skills and capabilities to deliver our business requirements; and
- Building the Incredible: evolving our compelling Circler proposition to ensure we successfully compete for and retain top talent, with a team that is as diverse as the borrowers and institutional investors that we serve.



Key performance indicators

How we measure our performance

Financial | Statutory

Total income (£m)

£148.7m

2020	222.0
2021	206.9
2022	148.7

Definition

The Group generates total income principally from: transaction fees earned from originating loans with borrowers; servicing fees from servicing of loans under management; and investment income net of investment expense.

Links to strategy:

1 2 3 4

(Loss)/profit before tax (£m)

(£12.9m)

2020	(108.1)
2021	64.1
2022	(12.9)

Definition

(Loss)/profit before tax is defined as net income after taking into account all operating expenses and finance income, costs and share of(loss)/profit of associates

Links to strategy:

1 2 3 4

Basic (loss)/earnings per share (p)

(2.0p)

2020	(31.2)
2021	17.4
2022	(2.0)

Definition

Basic (loss)/earnings per share is defined as the(loss)/profit for the year attributable to ordinary equity holders of the Parent Company divided by the weighted average number of ordinary shares in issue during the year.

Links to strategy:

1 2 3 4

Operational

Originations (£m)

£1,481m

2020	2,742
2021	2,296
2022	1,481

Definition

This represents the monetary value of loans originated through the Group's platform or through Marketplace referrals in any given year. This is a key driver of both transaction fees and future expected servicing fees and loans under management.

Links to strategy:

1 2 3 4

Loans under Management (£m)

£3,743m

2020	4,214
2021	4,457
2022	3,743

Definition

This represents the total value of outstanding principal and interest to borrowers. It includes amounts that are overdue but excludes loans that have defaulted and loans originated through Marketplace referrals to other lenders.

Links to strategy:

1 2 3 4

Marketing costs (%)

29% of operating income

2020	30
2021	28
2022	29

Definition

This represents the total cost of third party marketing expenditure in any particular year divided by the operating income earned in that year.

Links to strategy:

1 2

Financial | Alternative performance measures ("APMs")

Adjusted EBITDA (£m)

£6.8m

2020	(63.8)
2021	91.8
2022	6.8

Definition

Adjusted EBITDA represents the operating profit/(loss) before depreciation and amortisation, share-based payments and associated social security costs, foreign exchange gains/(losses) and exceptional items. This is *the principal profit measure used by* the Directors in assessing financial performance in the Group's four segments.

Links to strategy:

1 2 3 4

Free cash flow (£m)

(£14.4m)

2020	15.4
2021	82.8
2022	(14.4)

Definition

Free cash flow represents the net cash flows from operating activities less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and *securitisation financing and funding* cash flows and lines of credit cash flows. The Directors view this as a key liquidity measure as it represents the net amount of cash used or generated to operate and develop the Group's platform each year.

Links to strategy:

1 2 3 4

Focus areas relevant to our KPIs

1. Attract more businesses and say yes to more businesses
2. #1 in new products
3. Technology and data to enable innovation at pace
4. Scalable products and processes and high-performing teams that execute brilliantly

Our business model

Creating value throughout the cycle

Key inputs

Small business borrower needs

Access to affordable finance

- SMEs' access to finance can be restricted
- SMEs account for ~50% of GDP but <2% bank lending

Fast, convenient applications

- Instant automated decision in the UK for 70% of applications (six minute application; decision in nine seconds; funding in 24 hours)
- Easy online applications in the US (six minute application; decision in 24 hours; funding in 48 hours)

Supportive customer experience

- 77 Group net promoter score

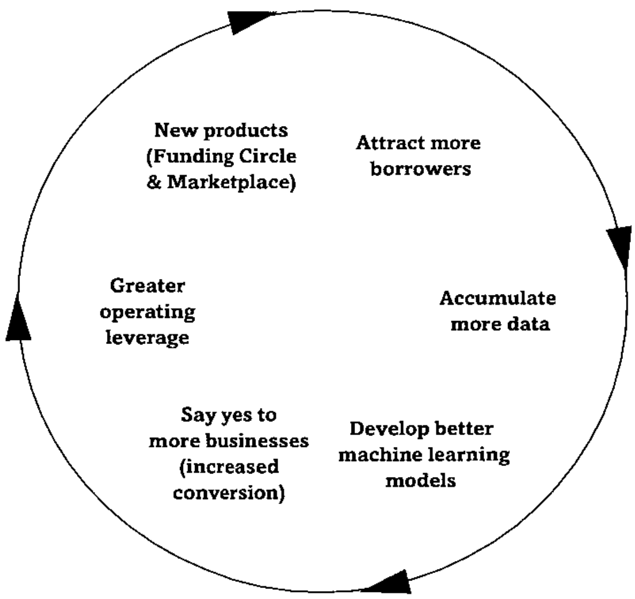
Institutional investor needs

Access to hard-to-reach asset class through diversified loan book of multiple smaller loans

- Diverse SME population
- Wide-ranging and complex risks
- Significant credit exposure
- Fragmented and unpredictable data

Robust and attractive returns

- 4-7% loan returns track record
- Higher future returns targeted (higher base rate environment)
- Active monitoring to ensure institutional investor diversification and performance



Our values

Obsess over the customer
Start with the customer: work hard to serve them, create great experiences, and build a trusting partnership.

Think smart
Find a better way: challenge assumptions, seek insights, and make informed decisions.

Make it happen
Take small steps fast and deliver: be ambitious, take accountability, see it through with grit.

Be open
Build trust through transparency and integrity: be honest, seek feedback, and communicate clearly.

Stand together
We win and lose as one team: celebrate diversity, listen actively, and support each other.

Live the adventure
Champion our culture: show curiosity, embrace change, and bring your passion every day.

Stakeholder value created

Borrowers
Access to fast, flexible, affordable finance with an amazing, supportive customer experience.

Institutional investors
Exposure to an attractive, hard-to-access asset class of strategic importance to economies.

Communities
We can make a difference to people, communities and the economy through our support of small businesses, advocacy of charitable causes and issues related to social impact and community engagement.

Government and regulators
A trusted and reputable company, working alongside regulators, industry and institutions to ensure best practice.

Partners and suppliers
A dependable customer, working in partnership wherever possible.

Employees (Circlers)
A culture of diversity, equity, inclusion and opportunity; dedicated to learning and personal growth.

Shareholders
An attractive opportunity for sustainable shareholder value creation.

Our people

Incredible people, working together

Building an incredible place to work and learn together

During a year of continued uncertainty, one which saw us emerge from the restrictions imposed by Covid-19 over the past two years only to be confronted by a challenging and volatile economic climate, our people and culture have remained central to everything we do at Funding Circle. As we learned during the pandemic, we came to re-define work as no longer just a place we go to, but a part of our day-to-day lives. Our culture has remained central to our success, particularly as we embraced a hybrid working environment.

Hybrid model, embracing flexibility

As a largely office-based company prior to the pandemic, our ways of working underwent a huge and significant transformation during lockdown. While we embraced a hybrid approach following the end of restrictions, there was equally some uncertainty as to how successful this would be for us. We formally launched our "best of both" hybrid working model in September 2021, and just over a year later we can say with some certainty it is a model that works well for our Company, and more importantly for our Circlers.

Empowerment has been at the heart of the model, with individual teams setting the appropriate cadence and working pattern that makes most sense for them. Moreover, while Circlers have consistently told us they really enjoy the greater flexibility hybrid working brings, we continue to see healthy week-to-week attendance in our offices.

Physical workspaces and in-person collaboration remain a key tenet to our success at Funding Circle, and we believe we are indeed taking forward the "best of both" from the experience of the last few years. We also recognise there's more to do, and we'll continue to learn and adapt our model as we move forward

Investing in our people

During 2022, we continued to invest in our people – growing and embedding our learning culture across the organisation; however, with the onset of economic uncertainty earlier in the year, we placed an emphasis on ensuring the proposition we offer Circlers is as comprehensive as possible.

Anticipating the rising cost of living, we doubled our budget for salary increases to try and help offset rising costs. In addition, we undertook a comprehensive benefits review, replacing our existing private health insurance with a superior offering. We introduced several initiatives, including enhanced care leave, a new electric car scheme and the opportunity for Circlers to buy additional holiday. We also ensure all Circlers who work at Funding Circle earn at least the Real Living Wage. Finally, to recognise the efforts of all our Circlers across the organisation and to support our people during what is an expensive time of the year, we awarded an end-of-year bonus to junior Circlers globally of up to £1,000.

A new value

Our values represent how we do things at Funding Circle. They are the linchpin that enables us to push for more. They are how we challenge ourselves, and how we hold ourselves and each other to account, as we achieve our mission. They are firmly part of our DNA. However, we recognise that, as we evolve, our values need to evolve with us. Therefore in 2022, we ran a series of focus groups to ask our Circlers what our values meant to them and how they saw the values showing up in day-to-day life at Funding Circle.

The end result was refreshed definitions for our existing values, and the introduction of a new customer-focused value – Obsess Over The Customer. Almost everything we do at Funding Circle starts with the customer.

Circlers visiting Funding Circle borrower, Grace & Thorn

Our values

Obsess over the customer

Start with the customer: work hard to serve them, create great experiences, and build a trusting partnership.

Think smart

Find a better way: challenge assumptions, seek insights, and make informed decisions.

Make it happen

Take small steps fast and deliver: be ambitious, take accountability and see it through with grit.

Stand together

We win and lose as one team: celebrate diversity, listen actively, and support each other.

Be open

Build trust through transparency and integrity: be honest, seek feedback, and communicate clearly.

Live the adventure

Champion our culture: show curiosity, embrace change, and bring your passion every day.

"My visit to Grace & Thorn provided real insight into the journey of an SME borrower, helping us build better products to meet their needs."

Thomas Andrews,
Product Manager at Funding Circle

It therefore made sense to all of us to bring this to life through a new value To celebrate, we launched a new series of borrower visits – where a small group of Circlers visit Funding Circle borrowers to learn more about their business.

Diversity, Equity & Inclusion (DEI)

We continue to make progress on DEI, and are incredibly proud of our Circler-led strategy. This year saw the establishment of another Circler-led group, focused on neurodiversity. We were also pleased to report our highest ever scores for DEI at Funding Circle. 87% of Circlers recommend Funding Circle as a great place to work; 92% believe Funding Circle demonstrates it values diversity; and 87% feel they can bring their whole selves to work and feel respected at Funding Circle. We also maintained our engagement score at 73% this year (in line with last year and the highest recorded at Funding Circle).

Our employment policy and philosophy is to provide equal opportunities for all, including any applications from disabled persons, and to help individuals develop skills and secure roles relevant for them and their career ambitions. This includes making reasonable adjustments to the workplace to support our Circlers, both new and existing. Our recruitment process ensures all applications, including those from disabled persons, are treated equally and fairly.

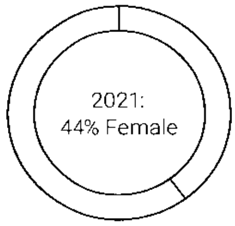
DEI statement

We're here to build the incredible at Funding Circle. We know we can only achieve this through an inclusive and diverse culture where Circlers of all backgrounds feel confident in bringing their whole selves to work, can contribute their ideas, and have opportunities to be successful and to have their talents nurtured. Through empowering our people we are not only building something incredible for our customers, but an incredible place to work too

We live by our Company values and cherish our diversity, be that culture, gender, race or ethnicity, sexual orientation, gender identity or expression, disability, marital status, age, nationality, religion, or diversity of thought, belief, experience or expression. We Stand Together, as one.

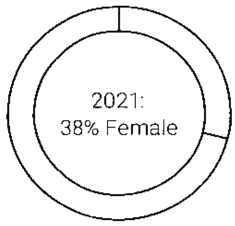
Gender breakdown
as at 31 December 2022

All Circlers



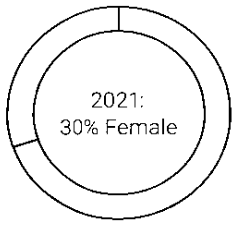
- Female **40%**
- Male **60%**

Global Leadership Team



- Female **29%**
- Male **71%**

Group Board



- Female **70%**
- Male **30%**

Gender pay gap
%

Mean pay gap	
2022	22.4%
2021	18.5%
Median pay gap	
2022	30.5%
2021	27.1%
Women in senior leadership	
2022	33%
2021	34%

Our people continued

Our Circler groups

Women @ FC

Building a community where women connect, thrive and win

We strive to improve women's representation across all levels in the business by spotlighting women's successes and challenges and building a tight group of ambassadors and chairs who help us drive progress and engage the wider business. In 2022, to support and empower women, we started tracking representation of female presenters at all Company events and improved from 29% of women presenters to 47% at the Company's bi-annual all-hands event in the UK.

Parents @ FC

Providing a supportive space and a network for working parents

In August, we welcomed 30+ little Circlers to our UK office for a "bring your kids to work" day and teddy bears' picnic during the school summer holidays. Children were entertained with party games, painting and crafting, singing and dancing, and plenty of food. Parents enjoyed the opportunity to connect and meet each other's "mini-mes" and little Circlers had lots of fun and got to see where their parents go to work.

Neurodiversity @ FC

Spearheading the discussion on how neurodifferences add value, and building the infrastructure for an equitable and accessible workplace

In 2022 we set up this new global group to foster a supportive space, advocate on relevant issues in the workplace, and provide resources to educate the wider Funding Circle community. We marked the launch with an impactful introductory video showcasing what neurodiversity is all about and featuring neurodivergent famous faces. We have since focused on building a repository of content for Circlers to refer to including information on ADHD, OCD, dyslexia and dyspraxia, including personal Circler stories.

Let's Talk About Race

Educating on the experiences of minorities, celebrating racial diversity, and creating a safe space to continue engaging in dialogue

Every October, our Let's Talk About Race group *celebrates Black History Month. Every Monday* through the month we shared two spotlights – one about an Incredible Circler we look up to and another about a black culture we celebrate in British history. We also hosted a Black History Month "Sip n Paint" event where we invited talented young artists to teach Circlers to recreate artwork that was inspired by African culture. We also enjoyed lots of delicious Afro-Caribbean food and drink whilst learning about Black History Month in a more creative way.

Circle of Pride

Championing inclusion for all through an LGBTQIA+ lens by building an open community and celebrating LGBTQIA+ contributions

We welcomed a lot of new starters to the group last year, and so to celebrate we hosted one of our biggest events in June – a Pride Month picnic. This created an opportunity for many people in our community and other Circlers to meet in person for the first time and get to know each other better. The sun was shining and there was lots of delicious food, music and fun – including a pub quiz to test our LGBTQIA+ knowledge.

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FC Impact

Coming together and giving back to communities in need, raising awareness for worthy causes, and making an impact through charity and volunteering projects

In 2022, we wanted to make a positive change for those in need by launching volunteering opportunities with the first UK-based Sikh charity, Nishkam SWAT, which serve free meals to disadvantaged communities.

Circlers volunteered on a monthly basis and helped serve food, replenish supplies, clean and hand out clothes. Circlers volunteered across seven sessions throughout the year and we raised over £32k for the charity through a variety of internal initiatives.

Environment, social and governance ("ESG")

Delivering on our commitments

Our core mission is to help small businesses win. In delivering this mission we want to have a positive impact in our communities and on the environment, not only through the lending we provide to our small business customers that often struggle to find financing, but also through sound ESG practices that are key to achieving our mission and strategic objectives.

ESG framework

Our ESG framework has three pillars: 1. Diversity, Equity and Inclusion ("DEI") and social impact, 2. environment and climate change, and 3. governance and risk management. In 2022 we primarily focused on refining our strategic approach and priorities, in particular with respect to social impact and the environment and climate change. Our approach to DEI is detailed in "Our People — Diversity, Equity & Inclusion" on page 25

DEI and social impact

Our vision and level of our commitment

- To be best in class in supporting a diverse SME customer base: creating jobs, fostering financial inclusion, having a positive impact and providing opportunities, whilst having a multiplicative effect on the wider community
- To be best in class and live by our DEI statement to build an inclusive and diverse culture

Achievements in 2022

- Partnership with Hatch to support underserved social entrepreneurs and promote employee volunteering and mentoring
- SME survey to assess areas of need for support
- Build and launch of ESG landing page on corporate website
- See "Our People — Diversity, Equity & Inclusion" on page 25 for DEI highlights

Goals and roadmap for 2023

- Define SME facing objectives, approach and timeframe on social impact initiatives in line with SME feedback
- Goal of 100 volunteers and 150 volunteer hours through corporate engagement partnerships
- See "Our People — Diversity, Equity & Inclusion" on page 25 for DEI strategy.

Climate change and environment

Our vision and level of our commitment

- To support key environmental initiatives where we can have meaningful impact, that make sense for Funding Circle and its customers, and achieve a good standard of positive environmental impact and progress towards net zero

Achievements in 2022

- Achieved carbon neutrality for US &and UK operations for 2021, and on track for 2022
- First measurement of Scope 3 financed emissions of US &and UK loan books and engaged industry expert to begin wider Scope 3 measurement in 2023
- Co-funded a "tiny forest" project in Peckham, UK, through Tiny Forest powered by Earthwatch Europe for planting in Q1 2023

Goals and roadmap for 2023

- Achieve carbon neutrality recertification for 2022 emissions for Scope 1 and 2 and limited Scope 3 GHG emissions, including Qualifying Explanatory Statement (baseline year 2021)
- Begin to integrate full Scope 3 emissions into footprint measurement
- Begin process to consider setting science-based targets, aligning with the Science Based Targets initiative ("SBTi") guidance

Governance and risk management

Our vision and level of our commitment

- To meet shareholder and investor expectations, and be viewed positively in the market

Achievements in 2022

- Updated ESG framework, and ESG Committee ("ESGC") and Board Risk and Compliance Committee ("RCC") Terms of Reference to explain ownership of strategic initiatives and risk management more clearly
- Improved governance and ownership of modern slavery compliance
- Conducted annual risk and control assessment review of ESG risks
  Identified climate risk training for ESGC to be completed in 2023

Goals and roadmap for 2023

- Our first UNGC Communication on Progress report will be 2023
- Deliver training to Board and senior management teams on key ESG topics (including climate-related risks)
- Review requirements around climate-related risk scenario analysis in accordance with Task Force on Climate-related Financial Disclosures ("TCFD") guidelines and conduct such analysis if deemed appropriate
- Develop climate-related risks and opportunities metrics and targets for TCFD reporting

ESG governance

Our ESG governance framework has been structured to address risks related to ESG issues, and also those ESG opportunities associated with the wider strategic ambitions that we see when engaging with our diverse stakeholders. Please also see "Risk Management" on page 55 and "Corporate Governance" on page 72 of this Annual Report for more detail on our various risk and governance committees.

More information on governance p72

More information on risk p55

Global Head of Legal leads delivery of ESG framework, working with local teams to support various Board, management and local ESG initiatives

Board

FCH PLC
Maintains overall responsibility and oversight for ESG matters, including climate-related risks and opportunities

Risk and Compliance Committee ("RCC")
Responsible for oversight and management of ESG risks, including climate-related risks

Environment, Social and Governance Committee ("ESGC")
Responsible for ESG strategy, voluntary commitments, stakeholder engagement and climate-related opportunities

Management

Management Risk Committee ("MRC")
Responsible for implementation and management of risk

GLT
Responsible for establishment, implementation and management of ESG strategy

Group CRO
Executive owner of ESG risk management

Group CEO
Executive owner of ESG strategy

Group GC/CPO
Executive sponsor of ESG programme, implementation

Business unit committees

Regulation, Reputation and Conduct Risk Committee ("RepCon")
Management forum for governance of reputation and conduct risks, including those related to ESG

Credit Risk Management Committee ("CRMC")
Management forum for governance of credit risks, including those related to ESG

Operational Risk Committee ("ORC")
Management forum for governance of operational risks, including those related to ESG

Environment, social and governance ("ESG") continued

Task Force on Climate-related Financial Disclosures ("TCFD")

Compliance statement

This statement of compliance and the information provided below have been prepared on the basis of our materiality assessment of climate-related risks and opportunities to the business over the short, medium and long term, which generally has assessed these risks and opportunities as not being material to the business. Further details are provided in the following table. This assessment will remain subject to annual review given the complexity of the issues, the availability and quality of data, the evolving practices in this area, the longer-term implications of climate change on our customers and business and our strategic approach to climate-related risks and opportunities. Currently, the risk assessment process is undertaken on an annual basis with a half-yearly review. The conclusions based on this assessment are subject to change as more and better information and understanding become available. The Company has made climate-related financial disclosures consistent with the TCFD recommendations for the current reporting year, or as explained otherwise, in the following areas:

- Governance: all recommended disclosures;
- Strategy: (a) all recommended disclosures; and
- Risk Management: all recommended disclosures.

The Company has made disclosures that are partially consistent with the TCFD recommendations, in the following areas:

- Strategy: (b) limited disclosures are currently provided based upon our materiality assessment and strategic objectives, as set forth in more detail in the following table; and (c), certain limited qualitative assessments in respect of this item are disclosed, but based on our materiality assessment and current data availability, we have not fully implemented the TCFD recommendations regarding scenario analysis at this time; and
- Metrics and Targets: (a), (b) and (c) disclosures that are partially consistent with the TCFD recommendations in respect of items (a) and (b) have been provided as set forth in the following table. In respect of item (c) additional work is necessary to improve data availability and accuracy to measure these risks, and more understanding is required regarding methods and approaches to manage these risks in the medium to longer term. In the short term, we do not believe these risks and opportunities are material and no metrics or targets have been established in this regard, as set forth in more detail in the following table.

See the following table for more information on our plan and expected timings to address items where only partial disclosures have been provided, and please see "Risk management – Principal risks and uncertainties" on page 59 for a description of those risks which we believe are material

The Company has considered the TCFD's Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (2021 update), Guidance for All Sectors and Supplemental Guidance for the Financial Sector (in this regard we considered the Supplemental Guidance for Banks in regard to lending activity, noting, however, that Funding Circle is not a bank and does not share many of the risks that may arise in larger banking institutions), as well as the Financial Conduct Authority's Review of TCFD-aligned Disclosures by Premium Listed Commercial Companies and the Financial Reporting Council's CRR Thematic Review of TCFD Disclosures and Climate in the Financial Statements.

Governance	Disclosure	Cross reference	Disclosure level
(a) Describe the board's oversight of climate-related risks and opportunities.	The Board retains ultimate responsibility for providing the strategic focus, support and oversight for the implementation of the Group's ESG strategy, including climate-related risks and opportunities. The Board delegates certain matters related to climate-related risks and opportunities to two Committees • the ESGC is responsible for oversight of the Group's overall ESG strategy, including climate-related opportunities and voluntary commitments; and • the Risk and Compliance Committee is responsible for oversight of risk management related to ESG risks, including climate-related risks To date, climate-related risks have been deemed as not material in the short term. Generally, climate-related matters do not form a significant area of consideration for the Company at this time and have not been a regular item of consideration for the Board. Nonetheless, given the complexity, stakeholder interest, regulatory focus and longer-term implications of the TCFD recommendations and climate change more broadly, the Board has nominated a champion for climate-related initiatives to work with the Global Leadership Team and other senior leaders in the business to progress the Group's efforts on climate-related activities Matthew King is the Board champion in connection with our environment and climate change initiatives, and brings experience as a Non-Executive Director of other more resource-intensive industries where climate change is of critical focus. More generally, the Board and the ESG Committee have substantial and varied experience with ESG-related issues, and climate change in particular. Within the wider Board, Eric Daniels has been on the Advisory Board of the Smithsonian Tropical Research Institute ("STRI") for the past ten years. STRI is recognised as one of the premier scientific institutions in the fields of tropical life sciences and sustainability Eric Daniels has also been an active supporter of the Atkinson Center for Sustainability at Cornell University Geeta Gopalan also currently serves as Non-Executive Director and Chair of the risk committee for Virgin Money plc where she has gained substantial experience in respect of ESG-related risk management, including climate-related risk in the banking sector. To further support the Board, we have sought expert advice on our environment and climate change strategy, provided internal and external presentations to the ESG Committee to increase the members' awareness and understanding of our carbon strategy and have proposed additional training for the Board specifically focused on climate-risks and TCFD matters to be implemented in 2023. The Board has reviewed and approved our ESG framework and our approach to climate change and the environment.	Please also see the "Report of the ESG Committee" on page 98 and the "Report of the Risk and Compliance Committee" on page 96 for more information on oversight of climate-related risks and opportunities	**Full disclosure**
(b) Describe management's role in assessing and managing climate-related risks and opportunities	The GLT is responsible for implementing our ESG framework's climate-related actions, including strategy related to opportunities and climate-risk management in line with our Enterprise Risk Management Framework ("ERMF") Overall executive responsibility for ESG-related matters, including climate-related risks and opportunities, is held by our CEO, with GLT responsibility for strategy held by the CEO and for risk management held by the Chief Risk Officer. Day-to-day management responsibility for climate-related risk management and strategy execution related to opportunities sits with the Global Head of Legal and Regulatory. Any material climate-related risk issues can be escalated to the Chief Risk Officer, the Management Risk Committee and the RCC, as applicable. For most projects, reporting and implementation of TCFD recommendations are handled by subject matter experts and function managers. For example, implementation of our overall ESG programme, as well as carbon neutrality, net zero and emissions offsets and reporting, sits with the Global Head of Legal and Regulatory, while implementation of any climate-related risk initiatives and reporting sits with the Global Head of Enterprise Risk See the table titled "ESG governance" for more information Given the assessment of limited materiality of climate-related risks and opportunities identified in the short term, and also the limited size and complexity of the business, there is currently limited formalised reporting to the GLT or the Board specifically in respect of climate-related risks and opportunities Generally, senior managers leading various projects have reported to the GLT periodically to set strategy, maintain alignment on goals, report on progress and identify areas of importance. GLT members and senior managers also periodically report progress and provide updates to the ESG Committee, local leadership teams and the wider business. To date, climate-related matters have not formed a significant part of financial management, and have largely been limited to costs related to reporting, carbon footprinting and carbon offsetting. Climate-related risks are assessed in line with our ERMF, and reviewed on an annual basis As described in more detail throughout this table, climate-related risks and opportunities are currently not considered material in the short term. In light of this, there has been limited subject matter for consideration by the MRC, the RCC or other entity risk committees, however, we expect this to evolve over time Climate-related opportunities have been considered through a strategic review carried out in 2022 to establish areas of focus, level of commitment and priorities The outcome of this review was subject to approval of the GLT and ESGC We continue to explore some limited commercial strategies in respect of climate-related opportunities to gain more insights into customer preferences around green finance for our SME segment in the UK.	Please see also "Risk management – Environmental, social and governance risk" on page 61	**Full disclosure**

Environment, social and governance ("ESG") continued

Strategy	**Disclosure**	**Cross reference**	**Disclosure level**
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	The Company does not consider climate-related risks and opportunities to be material to the business, strategy and financial planning, in particular given the typical duration of our loans and the nature of our business as set forth in more detail in (c) below. We have nonetheless identified relevant climate-related risks and opportunities over the short (one year or less), medium (one to five years) and long (more than five years) terms with a view to transparency and establishing a practice for such disclosure as these issues evolve and mature. *These time periods are consistent with those used in respect of other* risks identified pursuant to our ERMF and our approach to strategic planning and given our relatively short-term products. This materiality assessment has been largely qualitative, and has been informed by a variety of information sources in consideration of both risks and opportunities, including customer feedback, competitive landscape assessment, feedback from internal product teams, and risk assessments in line with our ERMF Generally, the transition to a low-carbon economy likely presents more significant risks and opportunities for Funding Circle, as compared to the physical risks of climate change over the short to medium term We are yet to engage meaningfully with the longer-term implications of climate change. In addition, although there are clearly certain differences in respect of climate-related impacts as between the US and UK, we have not separately identified risks and opportunities by geography in respect of our SME customers and loan investor impacts. While we believe our disclosure in respect of this item is consistent with the TCFD recommendations, we believe that we can deepen our understanding on this item and more work is needed to better understand the risk and opportunity impacts in respect of our SME customers over the medium to long term. There is currently very limited data and significant issues with data quality related to climate-related impacts in respect of SMEs to support more detailed quantitative analysis in respect of climate-related risks related to our lending products Over the coming two to three years, we will continue to explore ways to improve data quality and availability, and also continue to work with experts and policymakers to consider good practices in this area which is still at a very early stage of development. Examples of potential climate-related risks and opportunities faced by Funding Circle include the following **Transition risks** • **Reputation:** short to medium-term failure to comply with climate change-related regulations or to achieve goals may negatively impact our public perception, increase stakeholder concern or negative stakeholder feedback • **Strategic:** short to medium-term lack of SME climate-related data or changes in customer demand for green finance products, or increases in carbon offset costs, climate reporting and regulatory compliance costs or transition costs may adversely impact the business. • **Funding:** medium to long-term changing investor demand or available capital as a result of climate-related policies may impact platform liquidity • **Credit:** medium to long-term impact on higher carbon-emitting industries due to climate-related regulations, carbon taxes, carbon pricing or transition costs, or inadequate climate-related stress testing. • **Policy and legal:** medium to long-term imposition of new climate-related regulations or more onerous reporting obligations on our business, our customers, or our products. **Potential financial impacts** • Reduced revenue due to lower demand for products and services, or higher regulatory compliance cost. • Reduced customer demand due to shift in customer preferences or increased operating costs • Reduced revenue due to lower demand for products and services from SMEs or institutional investors. • Write-offs, asset impairment, and early retirement of existing assets due to policy changes or repricing of assets (e.g loan valuations) • Increased operating costs (e.g higher compliance costs)		**Full disclosure**

Strategy continued	Disclosure	Cross reference	Disclosure level
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term continued	**Physical risks** • **Credit:** short to medium term, risk of acute physical impacts from climate-related weather events, and long-term climate change-related environmental damage may impact SME borrowers' operational and credit performance, or availability of financing to SMEs more generally • **Funding:** long-term investor demand may be impacted acutely or more generally in respect of risk appetite regarding borrowers being potentially significantly impacted by physical effects of climate change, and overall investor liquidity may be impacted by acute or chronic adverse environmental events **Potential financial impact** • Reduced revenue from decreased borrower credit quality (for example, deteriorating credit quality). • Reduced revenue due to lower demand for products and services, write-offs and early retirement of existing assets (for example, impacted borrowers and loan assets in "high-risk" locations). **Opportunities (short to medium term)** • **Strategic:** green finance products to help to finance SME transition. • **Funding:** institutional investor demand for green or sustainable loan portfolios. **Potential financial impacts** • Increased revenue through access to new and emerging markets. • Increased access to capital and liquidity, and increased revenue through new products and services related to ensuring resilience or adaptation		
(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	To date, the impact of climate-related risks and opportunities on our business and strategy has been limited and our efforts in this regard are at an early stage and limited in scope. In the short to medium term, the Company does not consider climate-related risks and opportunities to be material to the business, strategy or financial planning. To date we have not quantified the potential short, medium or long-term financial impacts in respect of transition or physical risks associated with climate change, and we currently do not have any material strategic opportunities related to climate change that are part of our strategic or financial plan. The current financial impact on our business from climate-related risks and opportunities has been primarily limited to fees and costs linked to carbon footprinting and verification, neutrality certification, the purchase of carbon offsets and reporting. These costs are likely to increase in future, however, we do not believe they will be material in the short to medium term and we have yet to carry out a detailed forecasting of these costs. In 2022, we completed a commercial strategy assessment in respect of climate-related opportunities, pursuant to which we determined such opportunities are not considered to be a material opportunity or priority in respect of business strategy or financial planning, and we do not expect such opportunities to form a material component of the business strategy in the short to medium term. This assessment will be reviewed annually. In respect of our general business operations, our priorities are developing a carbon transition plan, including metrics and targets in respect of our own operations' emissions and reductions plan during the course of 2023 It is likely to take significantly longer to understand strategies aimed at reductions in Scope 3 emissions, in particular financed emissions related to our lending products. To move towards full consistency with the TCFD recommendations in regard to this item, more work is needed to better understand the strategic environment and the related risk and opportunity over the medium to long term in respect of our SME customers and institutional investors, and any associated financial planning impact from a change in strategy, if any, that such understanding might give rise to. Over the coming two to three years, we will continue to explore the strategic landscape, and also continue to work with experts and policymakers to consider good practices in this area which is still at a very early stage of development	See also "Viability statement" on page 70 regarding our assessment of the impact of environmental stress relative to other stresses and their impact on the Group in the near to medium term	**Partial (1/2)**

Environment, social and governance ("ESG") continued

Strategy continued	Disclosure	Cross reference	Disclosure level
(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	We have not yet carried out a detailed quantitative climate-related scenario analysis In the short to medium term, the Company does not consider climate-related risks and opportunities to be material to the business, strategy or financial planning in particular relative to other risks applied under existing stressed assumptions and strategic objectives over these time periods. We have started to engage with external advisers regarding market practice and standards related to such scenario analysis and will continue to review this on an annual basis. Qualitatively, we believe our strategy should be resilient under different climate-related scenarios over the short to medium term, including a 2°C or lower scenario. Given the nature of our business, we believe that the longer-term risks identified in connection with more severe climate-related risk scenarios are not currently material considerations for the business in light of our relatively short to medium-term time horizons. This conclusion will of course be subject to change as the transitional and physical risks of climate change become more immediate, including any government responses to climate change, and as customer and stakeholder attitudes change, however, as of the time of this Annual Report, we believe our current strategic approach is sufficient. As an online platform business, we have a limited physical presence and we have very limited capital goods exposed to climate-related risks In respect of our loan products, our relatively short-term and data-driven products allow us to implement changes to our products, credit strategy, marketing and contractual terms relatively quickly. This means we can adapt to shifts resulting from climate change and rapidly shift out of, or assist in the transition of, impacted industries Our loan products are relatively short in duration (with a maximum term of up to six years and, given the effects of portfolio composition by term, loan size, defaults and prepayments, our portfolio of loans under management has a weighted average life of approximately 10 to 24 months, varying by product type and vintage year of origination) In addition, our loan products are unsecured; therefore, we do not currently focus on certain longer-term climate-related risks, including physical risks that could adversely affect various forms of security, such as real estate, or which are currently beyond our strategic or risk planning time horizon Our SME customer base is comprised of a large number of borrowers, that are broadly distributed by industry sector and geography across the US and UK, and with loans of relatively small size (i.e. is highly granular) Given this lack of concentration risk, except in extreme scenarios, our overall borrower portfolio should be resilient to transition risks, such as increased costs or regulation, or the localised or regional impacts of physical risks We have recently worked with a third party expert to complete an initial measuring of the Scope 3 financed emissions of our loan book (GHG Protocol Category 15) under the Partnership for Carbon Accounting Financials ("PCAF") methodologies. We have much more learning to do related to this exercise and the data quality and data availability are quite low, therefore, it is too early to draw any meaningful conclusions from this data For example, while we can identify, segment and quantify borrowers by industry sector using assumptions to categorise borrowers, in principle, into higher or lower emitting industries, we cannot identify if an individual business is in fact higher or lower emitting, as we do not currently collect direct emissions data from borrowers (and there currently is no industry standard or requirement for businesses to measure, calculate or report this information). We also do not have any information on the relative risks or opportunities posed to these businesses by climate change given the products or services offered by these borrowers in a given industry. Lastly, in respect of loan funding and platform liquidity, we draw on a diverse pool of institutional investors to fund our loan products and we are able to adapt quickly to changing investor needs, which improves our funding resilience To date, loan investors have not required any eligibility criteria or reporting related to emissions arising from lending activities, nor has this been an active area of discussion among our investors more generally We expect this area to evolve over time as banks, asset managers and other asset owners become subject to more reporting and regulatory requirements related to their investment practices. As part of our wider ESG strategy we have voluntarily set a number of strategic ambitions in connection with our environmental impact, including in connection with net zero, which are largely aimed at satisfying what we believe are evolving stakeholder expectations on these matters and potential reputational risks associated with not taking a proactive approach Given the complexity and long-term nature of these issues, we also believe it is prudent to start our journey to better understand our impacts and our place within the climate crisis, even though we view climate-related risks as being not material in terms of risks and opportunities to the business in the short to medium term To move towards full consistency with the TCFD recommendations in regard to this item, more work is needed to better understand the strategic environment and the related risk and opportunity over the medium to longer term in respect of our SME customers and investors, and any associated financial planning impact, taking into consideration various scenarios associated with climate-related impacts Over the coming two to three years, we will continue to explore the strategic landscape, and also continue to work with experts and policymakers to consider good practices in this area which is still at a very early stage of development		**Partial (1/4)**

Risk management	Disclosure	Cross reference	Disclosure level
(a) Describe the organisation's processes for identifying and assessing climate-related risks	Our FRMF describes our risk management approach and supports clear accountability for managing risk across the Company. To date, climate-related risks are not considered as standalone principal risks by the Company, however, certain climate-related risks have been incorporated under other principal risks and are assessed in line with our ERMF and reviewed on an annual basis. Climate-related risk is included as a strategic risk, with responsibility and accountability for its management held by the CEO. We review our risk appetite statement regarding climate-related risks on an annual basis, and perform a risk and control self-assessment on an annual and half-yearly basis in accordance with the ERMF We have identified certain limited climate-related risks as lower priority risks within other principal risk areas, primarily related to funding, strategy, reputation, and credit risk. We assess the materiality of climate-related impacts to Funding Circle using a risk classification matrix to prioritise, classify and escalate risks and issues. This risk and control self-assessment process assesses and rates the inherent likelihood of a given risk occurring, ranging from unlikely (meaning an occurrence of once every two to five years) to frequent (meaning an occurrence of daily to weekly) and the impact of a given risk on the business, based upon both financial impacts (ranging from "critical" impacts defined as a financial impact of equal to or greater than £5,000,000 to "minor" impacts defined as financial impacts of less than or equal to £250,000), and non-financial factors such as scope of impacts on quantity and type of customer or product, reputation impacts such as media coverage, regulatory impacts ranging from increased engagement to enforcement actions, legal impacts such as increased litigation, operational impacts such as technology or business continuity impacts causing business stoppages across varying time horizons. Controls are assessed by evaluating design and effectiveness The classification matrix is applicable to all risk types and issues with a detailed methodology for the score computation. Ultimately, risk exposure is sufficiently reduced by the control such that residual risk is considered to be within risk appetite. This methodology ensures a consistent approach to rating and prioritising key risk exposures across the Company We applied a rating of low, medium or high in regard to materiality, impact and likelihood to cause an actual or potential negative impact on Funding Circle's financial performance or reputation. To date, our materiality assessment of climate-related risks and opportunities has been a qualitative assessment based on anecdotal observation rather than a quantitative assessment based on data metrics. We have also considered the nature of the business and the factors noted in our qualitative scenario analysis above to help inform our assessments. We currently review climate-related risks on an annual basis, which we believe is in line with our materiality assessment of these risks and also reflects the limited availability of data The primary areas of uncertainty for the business associated with climate-related matters are primarily related to the imposition of regulations and reporting obligations, including with respect to our SME customers and institutional investors, and customer preferences regarding our products and services. While we believe our disclosure in respect of this item is consistent with the TCFD recommendations, during 2023 we intend to review TCFD climate-related risk integration through our ERMF (including through the risk statement, risk taxonomy and metrics), develop a short to medium-term roadmap for ESG risk management and begin to review embedding ESG-related elements into first-line teams, for example into new product and change management processes. Please see the following table for a summary diagram of the risk and control self-assessment matrix related to ESG risk, including climate-related risks. Our ESG risk and control self-assessment does not look at climate-related risks in isolation. Instead, climate-related risks are aggregated with other risks associated with our ESG framework	See "Risk Management" for more information on our risk management practices and "Principal risks and uncertainties" for more information about those risks we deem more material	**Full disclosure**

Environment, social and governance ("ESG") continued

Risk & control self-assessment

Funding Circle strategic risk appetite statement

Funding Circle will make efficient use of its available resources to build a sustainable, diversified and profitable business that can successfully adapt to environment changes.

ESG risk assessment

Level 1 risk	Level 1 risk owner	Level 2 risk	Definition	Level 2 risk owner
Strategy	Chief Executive Officer, Lisa Jacobs	ESG – climate-related risk	An environment, social or governance event, or events or circumstances, that, if it occurs, could cause an acute or potential material negative financial or reputational impact on the Company	Global Head of Legal and Regulatory

ESG risk ratings as of Q4 2022 (inclusive of climate-related risks)

Level 1 and 2 risk: Environment, social and governance

Inherent likelihood	Inherent impact	Inherent risk rating	Residual likelihood	Residual impact	Residual risk rating	Control environment assessment
3 Likely	**2** Moderate	**2** Low-medium	**1** Unlikely	**1** Minor	**1** Low	Satisfactory

Inherent risk rating rationale	
Likelihood	**Likely:** meaning potential occurrence at least quarterly to half-yearly – this rating is based on various ESG areas that are subject to reputational risk or formally regulated, for example climate-related reporting pursuant to the TCFD framework, or subject to legal risk, for example related to risks associated with discriminatory practices which fall under DEI risks (these are considered to have a higher potential frequency as compared to climate-related risks which are not expected to be likely in the short to medium term).
Impact	**Moderate:** based on potential financial impacts of £250,000–£500,000 in a 12-month period or the regulatory, legal, reputational or operational risks noted above. The moderate rating is driven more by the potential impact or penalty of not having a suitable culture, or internal communications, and any reputational impact that would have a financial cost to remedy. In respect of climate-related impacts, the assessment reflects the impacts related to regulatory reporting obligations and the associated costs to compliance.
Control environment rationale	**Satisfactory:** the main controls being internal legal and regulatory review, management and risk oversight and controls (RCC and ESGC, and RepCon/ORC/CRMC/MRC), third party review and internal audit review, and internal policies and practices and internal compliance monitoring and testing.
Residual risk rating rationale	
Likelihood	**Unlikely:** meaning an occurrence of at least once every two to five years – controls in place very much reduce the risk to very unlikely – risks are relatively simple to mitigate and it is relatively simple to implement controls to adequately manage risk.
Impact	**Minor:** based on potential financial impacts of £0–£250,000 in a 12-month period or the regulatory, legal, reputational or operational risks noted above. These risks are not particularly systemic, automated or high frequency, nor are they inherently high impact or high severity.

Risk management — continued	Disclosure	Cross reference	Disclosure level
(b) Describe the organisation's processes for managing climate-related risks	We are at a relatively early stage in our management of climate-related risks, and as described throughout this table, these risks have been determined to be not material in the short to medium term, and largely are not a significant current priority for the business. As an initial step, we have formalised Board ownership of the overall ESG risk agenda, including climate-related risks, and clarified ownership of climate-related risk management through our ERMF, RCC and MRC. As part of our ERMF review, we identified a number of areas for further development, which we intend to progress starting in 2023 including: • review TCFD climate-related risk integration through the ERMF; • develop a short to medium-term roadmap for ESG risk management, including climate-related risks; • begin review for embedding ESG-related elements into new product and procurement processes approval forms as deemed appropriate; • review requirements around climate-related risk scenario analysis in accordance with TCFD guidelines, and conduct such a scenario analysis if deemed appropriate; and • develop climate-related risks and opportunities metrics and targets for TCFD reporting. We review climate-related risks and opportunities on an annual basis and the risk and control self-assessment process is undertaken on an annual basis with a half-yearly review. The conclusions based on this assessment are subject to change as more and better information and understanding become available.		**Full disclosure**
(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	We incorporate a limited number of climate-related risks into our ERMF, with a view to identifying, measuring and monitoring these risks within our business. The Enterprise Risk Management team reports to the Board and GLT on this subject in line with the process identified in our ERMF. Additional work is needed to integrate climate-related risk management into our first- and second-line teams, for example by embedding climate-related risks into our product development, strategy and training, and developing clearer metrics and targets to facilitate more frequent engagement to review these risks and opportunities effectively. We intend to continue to make progress on further integration in 2023 and over time in line with our overall materiality assessment. Currently, we review climate-related risks and opportunities on an annual basis and they are generally not considered a significant priority for the business in the short to medium term. While we believe our disclosure in respect of this item is consistent with the TCFD recommendations, we believe more work is needed for us to better understand what additional risk management practices may be applicable over the medium to longer term as this area develops over time. Over the coming two to three years, we will continue to explore the climate-related risks and opportunities, and also continue to work with experts and policymakers to consider good practices in this area which is still at a very early stage of development.	See "Risk management" for more information on our risk management practices	**Full disclosure**

Environment, social and governance ("ESG") continued

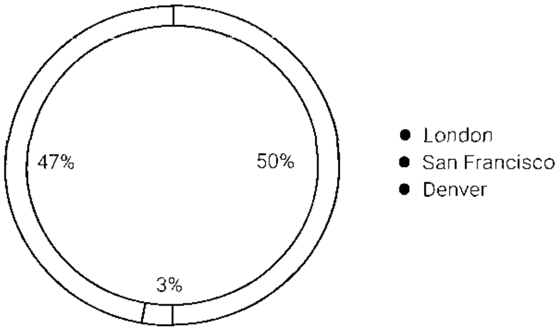
Metrics and targets	Disclosure	Cross reference	Disclosure level
(a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	We have limited available metrics to assess climate-related risks and opportunities, and as we have determined that these risks and opportunities are not material in terms of strategy or risk management in the short to medium term, we do not currently engage with these metrics on a frequent basis, typically only on an annual basis. We have begun to explore data that would afford us more opportunities to review metrics related to our loans under management, for example by sector classification code and our recent measurement of Scope 3 financed emissions (GHG Protocol Category 15) as per the PCAF methodology. However, this provides only limited information and requires further work for us to improve data quality and to derive more decision-useful information. It is too early for us to draw any meaningful conclusions from this data, but we believe it will help to inform our understanding of climate-related risks and opportunities as data availability and quality improve. We do expect to continue to develop further metrics to monitor climate-related risks and opportunities in respect of our loans under management; however, we believe this will be part of a longer-term process. In respect of our general business operations, we anticipate developing further metrics and targets in respect of our operational emissions and reductions plans during the course of 2023 (in particular in connection with our carbon transition plan) and in respect of our Scope 3 financed emissions (GHG Protocol Category 15), in order to move towards greater consistency with the TCFD recommendations, in particular the relevant aspects of the Supplemental Guidance for Banks, we plan to continue to develop our understanding of the climate-related data availability, data quality and methodologies to support those recommendations over the next one to two years.		**Partial (1/4)**
(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks	Our 2022 Scope 1 and 2, and limited Scope 3 (business travel and waste generated in operations) GHG emissions are disclosed on pages 39-40. As noted above, we have made progress on measuring our Scope 3 financed emissions for the first time and we expect to better understand this area during 2023, with a view to being able to disclose these emissions in future periods. We anticipate starting to measure our wider Scope 3 emissions during 2023.	See "Our climate impact" on page 39 for our emissions information	**Full disclosure**
(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Currently, our targets are more qualitative than quantitative. We have not yet set specific targets related to climate-related risks and opportunities, and more work is required to set metrics and targets in connection with our carbon transition plan and our net zero ambition, in particular in regard to Scope 3 financed emissions where we are at a very early stage. In 2022, we had hoped to begin to set more specific targets around reducing emissions, improving our data collection, and engaging with more strategic initiatives, however, we did not make meaningful progress on this. We did make significant progress on measuring our Scope 3 financed emissions for the first time and we expect to better understand this area during 2023, with a view to being able to disclose these emissions in future periods. Funding Circle's ESG framework sets out the following short, medium and long-term goals related to managing certain climate-related risks and opportunities: • ambition of net zero by 2050 in line with the UK government's commitment, while setting a stretch target to reach net zero by 2030 for our operational emissions; • achieve carbon neutrality recertification for 2022 emissions for Scope 1 and 2 and limited Scope 3 GHG emissions by 31 December 2023, including Qualifying Explanatory Statement (baseline year 2021); • begin to integrate other material Scope 3 GHG emissions categories (incl. Category 15/ investments) into footprint measurement in 2022–2023; • develop a plan to better understand Scope 3 financed emissions and improve data availability and data quality by 31 December 2023; • review climate-related risks and opportunities, and develop metrics and targets as applicable for reporting by 31 December 2023; and • consider a commitment to set science-based targets by 2024, in line with the SBTi's guidance for financial institutions.	See "Our climate impact" and "Net zero" on pages 39 and 42 respectively for more information about our emissions and progress toward net zero	**Partial (1/4)**

Our climate impact

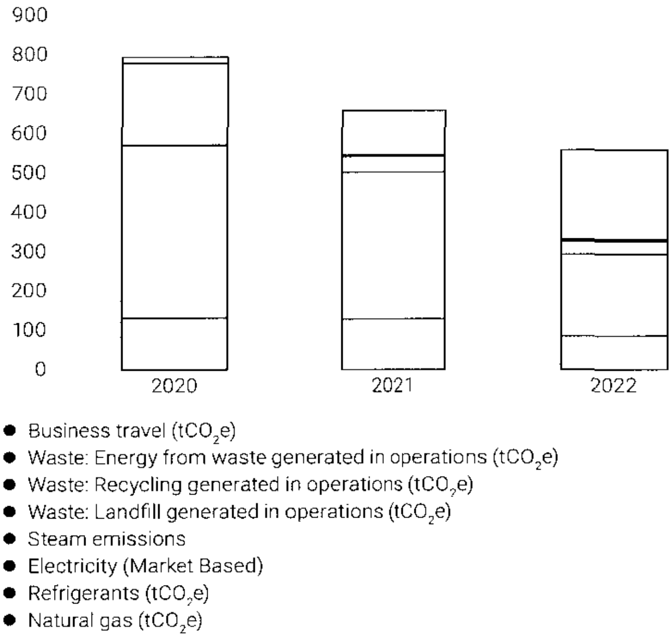
This section includes our mandatory reporting of greenhouse gas emissions ("GHG") in line with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Streamlined Energy and Carbon Reporting ("SECR") under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. To satisfy the requirement to show an intensity ratio, we have determined that the most appropriate for our business is tonnes of CO_2 equivalent ("tCO_2e") per £m of total income. Our GHG emissions reporting period is 1 January to 31 December and is aligned with our financial reporting year.

The GHG accounting follows the methodology set out by the WRI/ WBCSD Greenhouse Gas Protocol We have used the UK government conversion factors for company reporting (published by BEIS) in our calculations. For US Scope 2 emissions, we have used regional data from Environmental Protection Agency e-Grid. For Scope 3 Category 6 we have also used Environmentally Extended Input-Output (EEIO) Emission Factors. The selected boundary includes Funding Circle's Scope 1 and Scope 2 emissions, and limited Scope 3 categories covering waste generated in operations and business travel. In accordance with the SECR, we report our emissions data using an operational control approach to define our organisational boundary In line with our environmental reporting criteria, we report on all significant sources of GHG emissions from our business that are under our operational control. Our emissions disclosure methodology remains largely consistent with 2021. We did not undertake any specific measures to reduce our emissions during 2022. Our 2021 footprint is the chosen baseline for our carbon neutrality commitment.

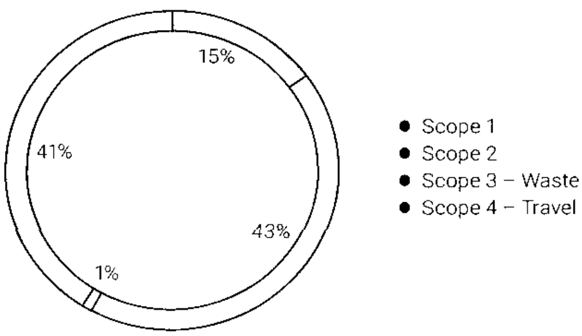
Total emissions (market based) by geography



Total emissions (market based) by emissions source by year



Total emissions (market based) by Scope 1, 2 and limited 3



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Environment, social and governance ("ESG") continued

Our climate impact continued

Global GHG emissions data for period 1 January to 31 December		**2022 tCO_2e**	2021 tCO_2e[4]	2020 tCO_2e[5]	2019 tCO_2e[6]
Scope 1[1]		**85**	129	132	147
Scope 2[2] – location based		**314**	340	378	493
Scope 2[2] – market based		**240**	411	437	–
Scope 3 (business travel and waste)[3]		**231**	116	222	–
Total gross emissions (Scope 1 and 2)	**– location based**	**399**	469	509	640
	– market based	**325**	540	569	–
Total gross emissions (Scope 1, 2 and 3)	**– location based**	**630**	585	731	–
	– market based	**556**	656	790	–
Full-time employee ("FTE") (average over the applicable reporting period)		**1,035**	929	1,002	–
Total income (£m)		**148.7**	206.9	222	177.3
Intensity ratio (Scope 1 and 2): tCO_2e/FTE	– location based	**0.39**	0.50	0.51	–
	– market based	**0.31**	0.58	0.57	–
Intensity ratio (Scope 1 and 2): tCO_2e/£m	**– location based[7]**	**2.68**	2.27	2.29	3.61
	– market based[7]	**2.19**	2.61	2.56	–
Intensity ratio (Scope 1, 2 and 3): tCO_2e/FTE	– location based	**0.61**	0.63	0.73	–
	– market based	**0.54**	0.71	0.79	–
Intensity ratio (Scope 1, 2 and 3): tCO_2e/£m	**– location based[7]**	**4.24**	2.83	3.29	–
	– market based[7]	**3.74**	3.17	3.56	–

1 Scope 1 includes combustion of fuels and operation of facilities, principally natural gas related to our leased office space.

2 Scope 2 includes electricity and steam purchased for use in connection with our leased office space. In respect of steam related emissions, the 2021 calculations have been restated to include emissions data for steam, which was previously not available at the time of reporting. Steam related emissions are not included for 2019 and 2020.

3 Scope 3 includes business travel and waste generated in operations. Waste data for our San Francisco office was previously not included but has now been included from 2021.

4. We have updated some of the 2021 data to reflect data quality and calculation improvements, as relates to Scope 2 steam data and Scope 3 business travel data, which has increased reported total 2021 emissions by 7% (market based).

5 Following a review of our emissions data and calculation methodologies in 2021, we identified a small number of inaccuracies in the data provided or calculations applied to the data in our 2020 Annual Report, which we have updated in the figures shown in this report, and which we do not believe are material to the overall information provided.

6. Limited emissions data was collected and reported prior to 2020, information for 2019 has been provided for comparison to the most recent reporting period not subject to Covid-19 impacts.

7 We are required to show an intensity ratio and have determined that the most appropriate for our growing business is tonnes of CO_2 equivalent ("tCO_2e") per £m of total income.

Regional breakdown of energy consumption data for period 1 January to 31 December

(Kilowatt-hour equivalent – kWhe)[1]	Scope 1				Scope 2			
	2022	2021	2020[2]	2019[1]	**2022**	2021	2020[2]	2019[1]
Region								
UK	**417,998**	554,366	349,552	380,719	**402,758**	359,638	326,315	954,078
US[3]	**–**	79,469	295,981	421,159	**545,219**	643,284	686,193	855,662
CE (Germany and Netherlands)[4]	**N/A**	N/A	N/A	N/A	**N/A**	N/A	72,132	132,506
Total	**417,998**	633,835	645,533	801,878	**947,977**	1,002,922	1,084,640	1,942,246

1 Limited emissions data was collected and reported prior to 2020, information for 2019 has been provided for comparison to the most recent reporting period not subject to Covid-19 impacts.

2 Following a review of our emissions data and calculation methodologies in 2021, we identified a small number of inaccuracies in the data provided or calculations applied to the data in our 2020 Annual Report and which we have updated in the figures shown in this report, which we do not believe are material to the overall information provided.

3 During 2021, we moved to smaller office space in San Francisco and the new premises do not have any Scope 1 gas usage. In addition, steam usage data became available in the course of 2022 for our Denver office and has now been included from 2021.

4 Information was not available in 2019 and 2020, and we ceased to hold office space in Germany from the end of 2020 and in the Netherlands during 2021 (although the office was unoccupied for all of 2021).

In 2022, we continued to engage with industry experts to accurately measure and verify our in-boundary emissions and to develop strategies to reduce or offset these emissions. We are working with a leading climate change advisory firm to measure and verify our 2022 Scope 1 and Scope 2 emissions, as well as limited Scope 3 emissions (related to waste and business travel) in accordance with the GHG Protocol and ISO 14064, in order to support the recertification of our carbon neutrality statement in respect of our operational boundary (excluding our wider Scope 3 emissions), which we hope to complete in Q2 2023. Similar to 2021, we expect to reach carbon neutrality through the purchase of quality carbon offsets. We acknowledge that there is ongoing debate regarding the use and efficacy of carbon offsets and we will continue to explore routes to emission reductions.

We saw a year-on-year reduction in our Scope 1 and 2 emissions, largely as a result of renewable energy supplier certificates applied to UK electricity under a market-based approach, as well as downsizing our US offices during 2021. Overall reported market-based emissions for 2022 were lower as a result, although Scope 3 emissions increased year on year, driven by a continued return of business travel to pre-pandemic levels. We have used 2021 as our baseline year for carbon neutrality and net zero commitments; however, during 2021 Covid-19 pandemic restrictions led to a substantial reduction in the use of our offices, resulting in overall lower carbon emissions for the business compared to the immediate pre-pandemic period. Circlers gradually returned to the office in early 2022, but with typically limited numbers of days in the office. We have not yet measured employee home-working within our Scope 3 emissions, which we intend to undertake in 2023 (one year later than previously stated in our 2021 Annual Report). Overall, notwithstanding some improvements, data quality available in respect of our GHG calculations is relatively low reflecting a lack of standardised processes to capture this data from third party suppliers or in respect of office space where we comprise a small portion of a given building.

#fc-impact-uk volunteers

Funding Circle partners with Hatch Enterprise

In 2022 Funding Circle and charity Hatch Enterprise joined forces with the mission to empower underrepresented entrepreneurs to imagine, launch and grow sustainable and impactful businesses through tailored support, community and partnerships.

During the 12-month partnership, volunteers from Funding Circle will train and mentor start-up businesses in learning skills to help them launch, grow or scale their businesses. Funding Circle has also donated £40,000, encouraging entrepreneurs to tackle their challenges in constructive, supportive and personalised ways as part of the 2022–2023 Hatch programme.

Underrepresentation for SMEs in the UK is an ongoing issue with a distinct lack of support, business skills and access to networks available.

In 2014, Hatch launched in Brixton, London, with the goal to build a fairer society and to drive solutions to the issues faced by underrepresented businesses. It has now increased its reach across the United Kingdom. To date, the charity has supported over 6,700 UK entrepreneurs through its flexible community-based support and tailored programmes. Today, over 80% of Hatch graduates are women or from another marginalised gender, 71% of its cohort participants are black or from another ethnic minority group, and 90% of its business founders have some social or environmental impact element to their business.

Environment, social and governance ("ESG") continued

Net zero

We are committed to reducing our impact on the natural environment. In our 2021 Annual Report, we disclosed a commitment to be net zero by 2030. The interpretation of net zero for disclosure purposes continues to evolve with the development of available standards and methodologies to define and understand the term. In line with this evolution, we have now reviewed our climate goals towards more precise and realistic objectives. Our ambition is now to reach net zero by 2050 in line with the UK government's commitment, while setting a stretch target to reach net zero by 2030 for our operational emissions. We define our operational emissions as Scope 1 and 2, as well as Scope 3 categories which are under our operational control, such as business travel and waste from operations. As an interim step, we have a commitment to carbon neutrality (PAS 2060) for our operational carbon emissions, which we achieved for 2021 and intend to achieve for 2022 through the purchase of quality carbon offset projects. We have not yet developed an annual carbon transition plan or set science-based targets to map our journey to net zero by 2050 but we continue to progress our carbon strategy, with support from climate and industry experts who are helping us to understand and manage our full carbon footprint. We are at an early stage of understanding our largest sources of Scope 3 emissions arising from our financed emissions (GHG Protocol Category 15), which we measured for the first time in 2022 under the Partnership for Carbon Accounting Financials methodology. Similar to other asset classes, there are a number of challenges to measuring and meaningfully addressing reductions in financed emissions for SME lending. We recognise this is a challenging task, and that the standards, capabilities and expectations in this area are evolving. We will seek to follow best practice to reach this goal in a way that is proportionate to our business and the urgency that climate action requires. We will avoid greenwashing and will look to deliver accurate and transparent information on our impacts and our progress towards our carbon neutrality commitment and net zero ambitions as this subject matter and our business mature

Social impact

In 2022, we completed a review of our social impact strategy to identify ways to continue to support Circler-led initiatives and also explore areas where we can contribute positively as a business in our communities Social impact forms a core component of our ESG framework, with Board ownership and oversight through the ESG Committee. In 2022, we conducted an SME survey to better understand drivers to borrower engagement and to inform our social impact programme, and we started to add social impact and climate-related content to our regular online SME newsletters as a channel for awareness raising. We also entered into an arrangement with Hatch Enterprise to support underrepresented social entrepreneurs through which Circlers volunteer their time to mentor or provide other forms of support. See page 41 for more information about Hatch In 2022, we also partnered with Tiny Forest to co-sponsor a micro-forest project in Peckham in South London. Tiny Forest brings the benefits of a forest into cities and urban spaces across the UK. Through its programme of planting small forests in ecologically deprived areas it reconnects people with nature, enhances wellbeing, helps mitigate the impacts of climate change and provides nature-rich habitat patches to support urban wildlife.

In addition to the positive economic impact our SME lending contributes to jobs and economic growth, we continue to engage in corporate ESG initiatives to support SMEs and our communities, and our employees are also working to drive more positive social outcomes through a wide variety of initiatives, groups and events. We continue to offer Circlers two paid volunteer "Impact Days" a year so that they can positively contribute to issues they feel passionately about. And we continue to progress our DEI initiatives as set out in more detail in "Our people - Diversity, Equity & Inclusion" on page 25.

Public policy and responsible lending

Our aim is for Funding Circle to continue to be a trusted and reputable company, working with governments, regulators and industry to uphold the highest industry standards. To this end, we actively engage with local, national, federal and supra-national government agencies, legislators, policymakers and industry groups. This engagement helps us develop insight and policy leadership on issues affecting SMEs, institutional investors and the wider fintech industry. We also submit position papers and participate in expert hearings, consultations and other forms of policy engagement.

In both the UK and US, Funding Circle supported businesses during the pandemic by providing loans through government SME guarantee programmes and a variety of forbearance measures. In the UK, we continued our membership with UK Finance, the trade association for the financial services sector, and the Confederation of British Industry, a broader business advocacy group. Through our membership of industry body Innovate Finance, we also helped to amplify the important role fintech plays in the UK.

In the US, Funding Circle is a member of the Responsible Business Lending Coalition ("RBLC"), a network of non-profit and for-profit lenders, investors and SME advocates. Members of the Coalition share a commitment to innovation and responsible behaviour in SME lending. We are also a signatory to the Small Business Borrowers' Bill of Rights ("BBOR"), the first cross-sector consortium supporting the rights of SMEs, and we are a member of the Innovative Lending Platform Association ("ILPA"). We have also been appointed to the US Consumer Financial Protection Bureau ("CFPB") Small Business Regulatory Enforcement Fairness Act advisory review panel.

Financial inclusion and other commitments

As part of our broader commitments as a responsible company, we have made a number of voluntary commitments and take a stand on the following issues:

- **UN Global Compact:** we have joined the UN Global Compact to formalise our alignment with its Ten Principles on human rights, labour, the environment and anti-corruption. We look forward to integrating the UNGC principles into our ESG programme and leveraging this framework to help guide our efforts in the future. Our first Communication on Progress report will be in 2023.
- **Principles for Responsible Investment:** we are a signatory to the Principles for Responsible Investment ("PRI"), which we believe is an important signal to our investors and shareholders and we hope will drive positive engagement and outcomes with these and other stakeholders. The PRI reporting obligations had been extended during the Covid-19 pandemic, and the timing for reporting is currently still under review; as such we have not yet reported under the PRI framework.
- **SME Finance Charter** (UK).
- **Borrower Bill of Rights** (US).
- **Responsible Business Lending Coalition** (US).
- **HM Treasury Women in Finance Charter:** Funding Circle UK is a signatory to the UK government's Women in Finance Charter, and is committed to supporting the progression of women into senior roles in the financial services sector. Our DEI strategy outlines our goals and targets in this area.
- **The Investing in Women Code:** Funding Circle UK is a signatory to HM Treasury's Investing in Women Code, and is committed to a culture of inclusion and to advancing access to capital for female entrepreneurs.
- **UK gender pay gap reporting** (UK).

Human rights

- We respect and promote human rights through our employment policies and practices.
- We apply these policies and commitments equally to everyone who works at, or is part of, Funding Circle.

Modern slavery

- We have a zero tolerance approach to modern slavery and human trafficking.
- We have published a Modern Slavery Act Transparency Statement in compliance with section 54 of the Modern Slavery Act.
- As part of our procurement process we ask suppliers for their Modern Slavery Statement.
- In 2023 we will include training on Modern Slavery as part of our financial crimes training modules.

Code of Conduct

- We are dedicated to implementing and maintaining the highest standards of behaviour, ethics and integrity among our workforce.
- We have created a culture where adherence to these standards is recognised and rewarded.
- Our Code of Conduct establishes these standards and addresses subjects such as integrity, conflicts of interest and non-discrimination. Employees are trained annually on our Code of Conduct rules.
- We have whistleblowing policies and procedures and dedicated whistleblowing officers in each of our geographies.

Anti-money laundering, anti-corruption and anti-bribery

- We recognise that our reputation for integrity and trustworthiness is critical to our success.
- We uphold all laws relevant to countering bribery and corruption in each of our jurisdictions in accordance with our global anti-bribery and corruption policy.
- Circlers are trained and evaluated annually on bribery, money laundering and corruption risks.

Data protection and information security

- As an online lending platform, we understand the importance of data protection, data privacy and information security, and we seek to comply with all applicable data protection laws.
- All employees complete data protection, data privacy and information security training at least once a year, and extra training may be required for people who handle data more frequently or handle more sensitive data.

Procurement

- We request significant suppliers to share their environmental policies or targets and their approach to corporate social responsibility with responses factored into the overall supplier rating.

Engaging our stakeholders

We actively engage with all our stakeholders

Our shared mission with borrowers, institutional investors, shareholders and our people is to ensure that a vital, historically underserved part of our economy can access the funding it needs to win. We are committed to building open and constructive relationships with all our stakeholders.

In 2022, we engaged with our stakeholders in a variety of ways to ensure they continued to feel connected and supported at all times.

Borrowers

SMEs are the growth engine of the economy, and it is our mission to help them fulfil their ambitions with access to fast, hassle-free finance.

How we engage

- Constant monitoring of real-time customer insight from data, and customer feedback from social media and satisfaction surveys at every stage of applications
- Regular focus groups with existing and prospective SME customers around product changes and new marketing campaigns, alongside Circler visits to meet borrowers
- The Board reviews strategy and monitors performance in light of customer feedback, with the aim of meeting the needs of borrowers more effectively
- We provide regular email updates and communications, including on the launch of our new products, changes to government schemes and continued service improvements and resources for borrowers

Outcomes of engagement

- We achieved an NPS of 77 and 78 for borrowers in the UK and US respectively
- We introduced super prime loans in the US and near prime loans in the UK
- We launched a new partnership with Premiership Rugby to attract more businesses and increase brand awareness
- We launched our new campaign platform, Lending Hands, with strong levels of customer engagement
- We were recognised as Unsecured Funder of the Year and Socially Responsible Lender of the Year at the NACFB Patron Awards

Institutional investors

Providing stable and attractive returns to a diverse range of institutional investors is a central part of our strategy.

How we engage

- We actively engage with all types of institutional investors – for example asset managers, banks, insurance companies, and pension funds – to share details of our products and services. This includes a tailored institutional investor website, a dedicated statistics webpage, presence at key global conferences, investor roadshows and bespoke meetings
- We provide information and support to existing institutional investors in a range of accessible formats, including monthly and daily reporting on their investments

Outcomes of engagement

- We onboarded a number of new, and re-signed a number of existing, institutional investors, further diversifying our funding investor base and funding sources
- Continued institutional investor demand to fund loans – with an active forward-pipeline in the UK and US

Section 172(1) statement

The Directors recognise that they have a duty to promote the success of the Company in accordance with s.172(1) of the Companies Act 2006. Further details on how the Board operates and the way in which it reaches decisions, including the matters discussed and debated during the year, are set out in the Governance section on pages 73 to 87. Some examples of how the Directors have had regard to the factors set out in section 172(1)(a)–(f) when discharging their duties are on pages 78 and 79.

Shareholders

We maintain transparent and open engagement with our shareholders. This enables the Board to clearly communicate its strategy, provide updates on our performance and receive regular feedback.

How we engage

- Regular shareholder communications such as full and half-year results, and ad-hoc regulatory news service announcements
- Analyst and investor meetings and presentations/ roadshows, as well as ad-hoc meetings and events with shareholders and prospective shareholders
- The 2022 AGM was once again open to shareholders, as we returned to in-person, business-as-usual shareholder engagement
- The Chair, Chief Executive Officer, Chief Financial Officer and Director of Investor Relations regularly communicate with shareholders and analysts as required and provide regular reports to the Board on shareholder interactions

Outcomes of engagement

- Incorporated our shareholders' opinions throughout the year into the shaping of Company strategy and other key developments

Circlers

Our people are our business. We are committed to creating a culture where Circlers thrive and share in our mission, values and ambition.

How we engage

- Regular all-hands meetings and our bi-annual Full and Half Circle events. These provide an opportunity to share information and interact with senior management
- Regular meetings with Helen Beck, our workforce engagement Non-Executive Director, and employee groups and subsequent feedback loops with the Board
- Six Circler-led groups (Women @ FC, Let's Talk About Race, Circle of Pride, FC Impact, Parents @ FC and Neurodiversity @ FC) that empower our people to deliver initiatives important to them and our DEI agenda
- Regular engagement surveys, with results shared with the Board, along with diversity reports and updates on diversity and inclusion initiatives

Outcomes of engagement

- Further embedded our Circler promise, Build the Incredible
- Maintained our highest ever employee engagement score of 73% in our 2022 employee survey
- Launched our new value, Obsess Over The Customer, introduced following Circler feedback to reinforce our focus on the customer across the organisation
- New Circler group, Neurodiversity @ FC, created to help understand how different people think, process and perceive information
- In the UK, our partner leave policy change was recognised as the Diversity & Inclusion Initiative of the Year at the AltFi Awards; and in the US, Funding Circle was named as one of Built In's Inaugural LGBTQIA+ Advocacy Award Winners and in its 2022 Best Places to Work Awards

Engaging our stakeholders continued

Communities

The SMEs we serve are at the centre of our communities. We are passionate advocates of charitable causes and issues related to social impact and community engagement.

How we engage

- Continual development and implementation of our ESG strategy. This process includes shaping our understanding of, and priorities for, engagement with our various stakeholders
- Regular meetings with investors including discussions regarding their ESG investment criteria as they apply to our loans and loan-backed investment products
- Circler group FC Impact co-ordinates our internal volunteering and charity initiatives

Outcomes of engagement

- Progressed our ESG strategy, which sets out a formal framework for operating as a responsible business and is overseen by our ESG Committee
- Further developed our carbon strategy, with support from climate and industry experts We have a carbon neutrality commitment for our operational emissions, and are developing an annual transition plan to map our ambition to net zero by 2050
- Raised £32,000 during 2022 for our charity of the year, Nishkam SWAT, and continued to provide regular volunteering activities for Circlers in support of a range of good causes
- Supported wider social initiatives by partnering with charities, such as Hatch Enterprise which empowers underrepresented entrepreneurs to launch and grow their businesses. This partnership involves volunteers from Funding Circle mentoring start-up businesses

Government and regulators

Our goal is for Funding Circle to always be known as a trusted and reputable company, and to work with regulators and industry to ensure best practice.

How we engage

- Engagement with local, national, federal and supra-national government agencies, including regulators, legislators, policy makers and industry groups. These interactions provide insight and leadership on policy and rulemaking related to issues affecting SME borrowers, institutional investors or lending in the fintech industry
- Contribution to the discourse and debate on industry issues, including submitting position papers and participating in expert hearings, consultations, forums and other policy engagement initiatives
- The Board ensures it uses the results of the above engagement, as well as key legal and regulatory changes affecting the business, to inform its strategy and decision making

Outcomes of engagement

- In the UK: Continued to work closely with the British Business Bank as a provider of government-backed lending during the pandemic; engaged with industry groups on improvements to Open Banking; highlighted Funding Circle's role in levelling up communities to the APPG for Financial Markets and Services, and became a signatory to the Investing in Women Code
- In the US: Supported the Philadelphia Federal Reserve and Bank for International Settlements study into the impact of fintech lending on credit access for US businesses by providing proprietary data. The study showed that fintech SME lending platforms increase access to capital at a lower cost for borrowers who are less likely to receive credit from traditional banks

A solid year responding well to evolving conditions

Overview of the year ended 31 December 2022

Against a backdrop of an increasingly challenging UK economic environment, our overall performance in 2022 was in line with our expectations. It followed a very strong prior year when our markets were distorted by the continued availability of various government-guaranteed loan schemes in both the UK and US which brought forward and exaggerated demand for loans by SMEs in H1 2021. This led to a drop in demand for loans when these government schemes concluded, with a gradual recovery in demand evident through H2 2021 and H1 2022. In mid-2022, through our proactive monitoring, we noticed increasing signs of stress in the market and we therefore adjusted and tightened our credit criteria accordingly. This tightening is noticeable in the UK originations profile below.

Originations

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

1 Other represents the previously presented Developing Markets segment. As this business has been closed and is in wind-down it has been renamed Other for segmental purposes.

2 Given the size, FlexiPay loans of £4m were not presented in 2021

In the UK, the government-guaranteed Recovery Loan Scheme ("RLS") was introduced in April 2021 and operated until May 2022. We continued to offer our commercial loans alongside the RLS, transitioning to operate solely our commercial lending from June 2022 onwards. We now also offer our commercial loans to near prime businesses. In the prior year, we offered government-guaranteed CBILS loans until the processing of those loans finished in June 2021. CBILS had particularly high levels of demand, due to the favourable terms for borrowers, driving peak originations in H1 2021.

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

During 2022, we have continued to grow originations via our Marketplace, which connects borrowers with other lenders in the market, providing further products beyond what Funding Circle currently offers, such as larger loans, asset finance and invoice finance, and we see this growing further in the coming year.

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

Financial review continued

Overview of the year ended 31 December 2022 continued

Loans under Management ("LuM")

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

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

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

- Early repayments on CBILS loans which were expected as there were no principal payments required in the first year and the government was paying the interest. As the first borrower payments became due, some borrowers repaid the loans in full.
- Reduction in PPP loans as they were forgiven by the US government, provided certain borrower conditions on usage were satisfied. No servicing fees are charged on PPP loans. PPP loans totalled £125 million at 31 December 2021 reducing to £28 million by 31 December 2022.
- FlexiPay loans under management continued to grow. Currently the *product features a revolving three-*month line of credit facility.

Funding Circle uses its balance sheet where it makes the business stronger This has been through securitisation programmes and private funds in 2019/20, co-investing as required by the government-guaranteed loan schemes, short-term funding as we onboard new investors, and in funding the early stages of FlexiPay. At 31 December 2022, Funding Circle's equity invested in the above Loans under Management was c.2.5% at £97 million (31 December 2021: c.1.5% at £70 million) This is described in further detail on page 53.

Characteristics of government loan schemes

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

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

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

Supporting businesses

Vikentijs Gubskis
8 Rocks Deli & Wine

Since 2017, 8 Rocks Deli & Wine has been offering the local community food and fine wines under one roof. FlexiPay is helping founder Vik to stay one step ahead.

Vik moved to the UK from Latvia in 2004 and spent 12 years working his way up the career ladder in the hospitality sector. However, Vik always wanted to run his own business and in 2017, 8 Rocks opened in Loughton, Essex.

Starting with just sandwiches, the cafe soon became a deli by day and a wine bar by evening, fuelled by Vik's enthusiasm to bring fine wine to the local community. However, as the business got into its stride, the pandemic brought challenges to the hospitality sector. While initially closed for six weeks, Vik seized the opportunity to introduce takeaway and delivery services, and behind the scenes he refurbished the shop to create a new space for the community. He has now begun inviting artists for live performances and holding wine tastings — most of 8 Rocks' *events are fully booked months in advance.*

Having initially received a government-backed RLS loan from Funding Circle during the pandemic, Vik learned about new product FlexiPay from his Funding Circle Account Manager, and in April 2022 was one of the early tranche of customers to be approved for a line of credit.

8 Rocks has used FlexiPay to help set the business up for success in the future by being better able to plan ahead. Vik has used the approved line of credit to buy stock, such as wine, in bulk in advance of upcoming events. This enables him to negotiate better prices from suppliers and he typically secures around a 10% discount. Vik has also been able to purchase much-needed equipment, spreading the cost into three instalments rather than having to pay everything upfront.

As a result of Vik's ongoing investment in the business, 8 Rocks continues to grow and develop as a multi-functional community space. When the shop is closed, Vik offers the space for private events, team bonding exercises and more. He has recently hired a marketing team to take 8 Rocks to the next level and the business is already reaping the benefits with footfall into 8 Rocks on the up once again. It's going to be a wine-derful 2023!

Financial review continued

Segmental highlights

Net income/(loss)	31 December 2022 Loans United Kingdom £m	Loans United States £m	Loans Other £m	FlexiPay United Kingdom £m	Total £m	31 December 2021 Loans United Kingdom £m	Loans United States £m	Loans Other £m	FlexiPay United Kingdom £m	Total £m
Operating income	**107.2**	**21.1**	**1.6**	**1.5**	**131.4**	137.7	25.1	2.7	–	165.5
Net investment income	**9.8**	**7.5**	**–**	**–**	**17.3**	21.7	19.7	–	–	41.4
Total income	**117.0**	**28.6**	**1.6**	**1.5**	**148.7**	159.4	44.8	2.7	–	206.9
Fair value (losses)/gains	**(2.4)**	**7.2**	**–**	**–**	**4.8**	10.5	18.1	–	–	28.6
Net income	**114.6**	**35.8**	**1.6**	**1.5**	**153.5**	169.9	62.9	2.7	–	235.5
Segment profit										
Adjusted EBITDA	**11.7**	**(3.7)**	**2.8**	**(4.0)**	**6.8**	61.9	28.4	1.5	–	91.8
Depreciation and amortisation	**(11.7)**	**(5.2)**	**(0.1)**	**–**	**(17.0)**	(9.7)	(4.1)	(0.1)	–	(13.9)
Share-based payments and social security costs	**(3.9)**	**(0.8)**	**–**	**–**	**(4.7)**	(7.6)	(1.3)	–	–	(8.9)
Foreign exchange gains/(losses)	**0.2**	**–**	**–**	**–**	**0.2**	(0.3)	(0.6)	–	–	(0.9)
Exceptional items	**–**	**–**	**–**	**–**	**–**	–	(3.9)	–	–	(3.9)
Operating (loss)/profit	**(3.7)**	**(9.7)**	**2.7**	**(4.0)**	**(14.7)**	44.3	18.5	1.4	–	64.2
Operating AEBITDA[1]	**4.3**	**(18.4)**	**2.8**	**(4.0)**	**(15.3)**	29.7	(9.4)	1.5	–	21.8
Investment AEBITDA[1]	**7.4**	**14.7**	**–**	**–**	**22.1**	32.2	37.8	–	–	70.0

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

United Kingdom

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

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

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

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

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

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

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

The UK generated operating AEBITDA of £4.3 million, lower than the £29.7 million of the prior year when CBILS was operating Total AEBITDA was £11.7 million (2021: £61.9 million) with an AEBITDA margin of 10%. Operating loss was £3.7 million (2021: profit of £44.3 million)

The reduction in both total AEBITDA and operating profit was driven by the lower levels of income generated post-CBILS and reduced investment AEBITDA.

United States

The US transitioned away from government-guaranteed loans in May 2021. We restarted commercial lending in July 2021, and although demand started at a low level this has gradually and consistently increased month on month.

We also see continued demand from institutional investors to lend although, with increasing macro uncertainty and rising base rates, concluding funding deals with institutions is taking longer. We anticipate adding further new institutional investors during 2023

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

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

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

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

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

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

Finance review

Overview

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

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

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

Profit and loss

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

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

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

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

Financial review continued

Finance review continued

Profit and loss continued

- **Servicing fees,** representing income for servicing Loans under Management, were £47.9 million (2021: £47.0 million). Whilst Loans under Management have fallen in 2022, it peaked at the end of the CBILS lending in June 2021 and, with yields on CBILS, RLS and commercial loans at c.1.25% (higher than the c.1 0% of older loan cohorts), servicing fees remained similar to 2021 levels. There is no servicing fee earned on PPP loans.
- **Interest income** represents interest earned on loans held at amortised cost. This predominantly relates to FlexiPay, where we charged a flat 3% fee in 2022 which is spread over three months, in line with borrower repayments
- **Other fees** arose principally from collection fees we recovered on defaulted loans and from fee premiums we received from certain institutional investors in the year in respect of buying back certain defaulted loans under a historical loan purchase commitment.

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

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

Net income, defined as total income after fair value adjustments, was £153 5 million (2021: £235.5 million). This reflects the reduction in operating income from the higher levels in 2021 when CBILS was operating together with a reduction in net investment income.

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

Operating expenses

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

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

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

	31 December 2022 £m	31 December 2021 £m	Change %
People costs	**98.4**	85.9	15
Less capitalised development spend ("CDS")	**(12.5)**	(8.2)	52
People costs net of CDS	**85.9**	777	11
Average headcount (incl. contractors)	**1,035**	929	11
Year-end headcount (incl. contractors)	**1,075**	979	10

Marketing costs reduced in the year to £38.4 million (2021: £46 9 million) driven by lower broker commissions from reduced origination volumes, together with strong cost control from spend optimisation Marketing spend overall was 29% of operating income (2021: 28%) with the Group investing more in above the line marketing channels (direct mail and online) which were required less when the government schemes were operating

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

Balance sheet and investments

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

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

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

1. Trading business includes £22.4 million of PPP loans together with the associated Federal Reserve borrowings which we expect will both reduce as the remaining PPP loans are forgiven.

2. US funding loans includes £19.8 million of loans funded temporarily whilst it was onboarding a new investor. The majority of these were sold in February 2023.

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

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

1 These vehicles are bankruptcy remote

1. Securitisation SPVs – This relates to the investment in securitisation vehicles. During 2022, the Group called options to wind down UK (SBOLT-19A) and US (SBIZ-19A) securitisations and bought out the remaining bondholders. The Group retains legacy securitisation loans of £19 million, and these are presented in "3. Securitisation loan buyout" above.
2. CBILS/RLS/Commercial – As part of our participation in the CBILS and RLS UK government loan schemes, we were required to co-invest c.1% alongside institutional investors. As the underlying CBILS and RLS SME loans are 70-80% guaranteed, our exposure is limited. However, where some of the investment is via warehouses, the increase in base rates have increased borrowing costs in combination with a revision to default stress expectations growing gradually and being longer lasting have impacted projected returns through these structures in the period and resulted in a fair value loss.
3. Securitisation loan buyout – This relates to loans held following the closure of certain consolidated securitisation SPVs of £19 million.
4. Private funds – There are a small amount of other loans, comprising seed investments in private funds held as associates.
5. US funding loans – £20 million of loans in the US where we directly funded the loans for a brief period whilst finalising a funding deal. The majority of these loans were sold in February 2023.
6. FlexiPay – This relates to FlexiPay drawn lines of credit.

Financial review continued

Finance review continued

Cash flow

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

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

Free cash flow, which is an alternative performance measure, represents the net cash flows from operating activities less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the investment vehicle financing and funding cash flows together with FlexiPay lines of credit. The Directors view this as a key liquidity measure and it is the net amount of cash used or generated to operate and develop the Group's platform each year.

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

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

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

Managing through a volatile environment to deliver superior risk-adjusted returns

Belkacem Krimi
Global Chief Risk Officer

At the beginning of 2022 the consensus among economists was for a year of recovery post-pandemic. This was expected to generate more opportunities for SMEs after two years of reduced consumption as well as short-term inflation shocks due to backlogged demand and cluttered supply chains. Unfortunately, this outlook did not last long. Events in Ukraine in February led to an energy cost crisis that rendered the inflationary pressure unsustainable, thereby forcing central banks to act at a pace never seen before. This resulted in the quick erosion of confidence and a slowdown in investment, which was further exacerbated in the UK by a political crisis within the governing party. The overall result has been a significant revision downwards of growth prospects in most major economies, with the UK being more adversely impacted than the US. 2023 is already being seen as a transitional year during which inflation is expected to stabilise in the latter part of the year.

Despite this environment, Funding Circle posted a strong credit performance in 2022 with a robust repayment profile in both the UK and US. On the back of this performance, we have revised our return expectations upwards over the course of 2022 and maintained a strong outlook to date. This reflects the remarkable resilience and integrity of SMEs entrepreneurs, the credit quality of the loan portfolio and the effectiveness of our collections activities.

Since Funding Circle's inception, we have always sought to maximise the adaptability of our credit capabilities so that we are able to deploy change at pace in volatile environments. It is for this reason that we continue to make the necessary investments in our technology and our people. Our capability to set and implement credit and underwriting strategies, our ongoing engagement with our investors, and the review of the risk/reward of our loans in relation to changes in the risk-free rate all enable us to support SMEs continuously through the cycle while continuing to generate relatively superior rewards for our investors. Throughout 2022, we maintained strong pricing discipline for our loans in the UK and US, and we also diversified our product range with shorter-term, lower-value loans for those businesses with different risk profiles or those seeking shorter repayment periods. We also recognised the more negative economic outlook in the UK, which led to a more prudent approach for originations, as announced in September 2022.

All of this demonstrates not only the granularity of our monitoring, but also how our risk models and fraud defences continue to perform and adapt through periods of heightened volatility and how our change management and testing capabilities are effective.

The credit environment is likely to remain uncertain and volatile in 2023, although our two geographies will be impacted differently. From an economic risk perspective, the consensus is that we are moving into a shallow but prolonged recession, with unemployment gradually going up but stabilising and improving as we move towards 2024. Investment and demand for loans may therefore remain subdued for some time. However, we are well placed to navigate such an environment given the quality of our monitoring, the learning pace of our credit models and our flexibility. We aim to maintain a very focused and prudent approach to credit risk management. Furthermore, with the learnings from the Covid-19 crisis, we remain confident that our products and processes are resilient and adequate to continuously support SMEs through 2023, and in the process help the economy as it moves towards a full recovery.

In addition to managing credit risk, we have also been able to make further progress with the strengthening of our broader risk management and control environment in 2022, notably:

- the overall performance of our government-guaranteed origination is well within expectations and we maintained a strong compliance track record with only one guarantee claim rejected to date;
- we continued to evolve FlexiPay following its beta launch in 2021, and we continuously optimised our data driven strategies around credit risk and operational capabilities (for example underwriting models including banking data or collection propensity models);
- we continued to strengthen our defences against cyberattacks and ransomware;

Risk management *continued*

- we continued to progress the implementation of new reconciliation software, AutoRek, which will automate and strengthen our client money controls, with the system intended to go live in H2 2023;
- we continued to monitor and strengthen financial crime controls and ensured compliance with anti-money laundering and sanctions regulation; and
- we continued to implement our ESG strategy, identifying, evaluating and monitoring ESG risk within our Enterprise Risk Management Framework.

Overall, we are proud of the good work accomplished in 2022 across the organisation to keep our employees, borrowers and investors safe and at the same time contribute to supporting society and the economy. The near future remains uncertain, but we are confident we have the right tools and the determination to navigate the uncertain environment successfully.

Risk management overview

Risk management sits at the heart of our business We recognise that effective management of all key risks is critical to meeting our strategic objectives and to achieving sustainable long-term growth. These key risks need to be identified, understood and appropriately addressed to protect our Company, shareholders, customers, Circlers, community and the environment.

At Funding Circle all employees, regardless of their position, play their part in managing risk within the business. A strong risk culture enables us to manage the risks inherent in our business activities seamlessly, every day, through the active participation of all. Our Enterprise Risk Management Framework ("ERMF") defines a common approach to risk management, with clear roles and responsibilities, and provides the foundations for a strong control environment

Our approach to risk management consists of:

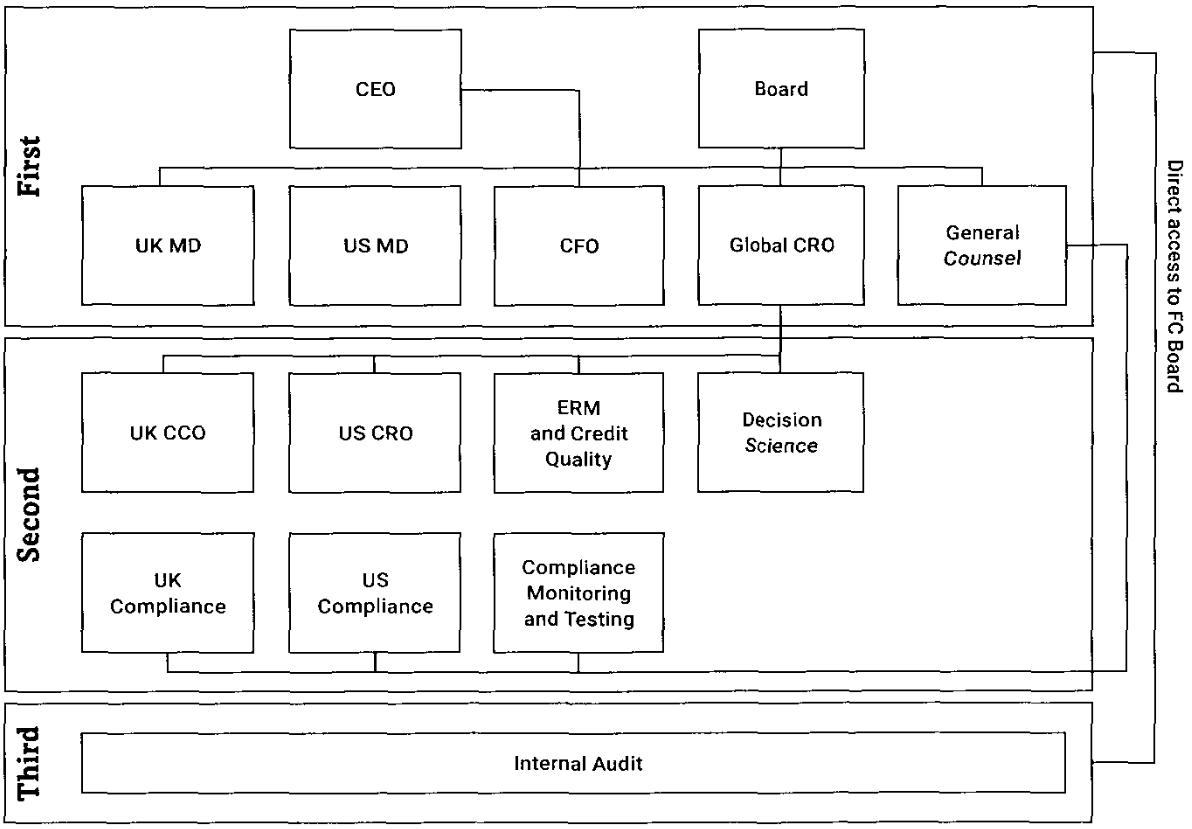
- putting our culture at the heart of everything we do;
- investing in robust risk capabilities, including advanced data and risk analytics; and
- doing the right thing for our customers, shareholders and employees.

As part of the second line of defence, the Risk team oversees risk management across the Company, in conjunction with the Legal and Compliance teams. We also support our first line of defence employees in their risk management activities – for example by providing training and expert support for centralised risk information management or complex credit analysis.

Risk culture

At Funding Circle, we believe that an open and strong risk culture encourages ethical behaviour and professional conduct. We promote our risk culture as part of our ongoing effort to reinforce our Company values and encourage all our Circlers to "Do the Right Thing" every day for our customers, employees, environment, community and other stakeholders.

Three Lines of Defence



Board role

The Board is responsible for setting the strategy, corporate objectives and risk appetite. The Board has delegated responsibility for reviewing the effectiveness of the risk management framework to the Board Risk and Compliance Committee ("RCC"). On the advice of the RCC, the Board approves the level of risk acceptable under each principal risk category, whilst providing oversight to ensure there is an adequate framework in place for reporting and managing those risks.

Chief Risk Officer and the Risk function

Our Global Chief Risk Officer ("CRO") leads the Risk function, which is independent of the business and has a direct reporting line to the Board. He is responsible for developing, maintaining and implementing the ERMF. He is also responsible for providing assurance to the Board that the principal risks are appropriately managed and that Funding Circle is operating within risk appetite.

Risk management policies

We have formalised and implemented risk management policies defining mandatory requirements to mitigate the principal risks that we face, with clear risk limits and requirements to monitor risks and adherence to limits. The Risk and Compliance teams regularly review these policies and controls to verify compliance and to adapt to changes in the business environment.

Risk appetite

Our risk appetite is defined as the level of risk that we, as a company, are prepared to accept whilst pursuing our core business strategy, recognising a range of possible outcomes as business plans are implemented. The Board sets the risk appetite and reviews the Company risk profile against risk appetite. Risk appetite provides a guideline for shaping business strategies and defining the level of controls needed. It also provides a basis for ongoing dialogue between management and the Board with respect to Funding Circle's current and evolving risk profile, allowing strategic and financial decisions to be made on an informed basis.

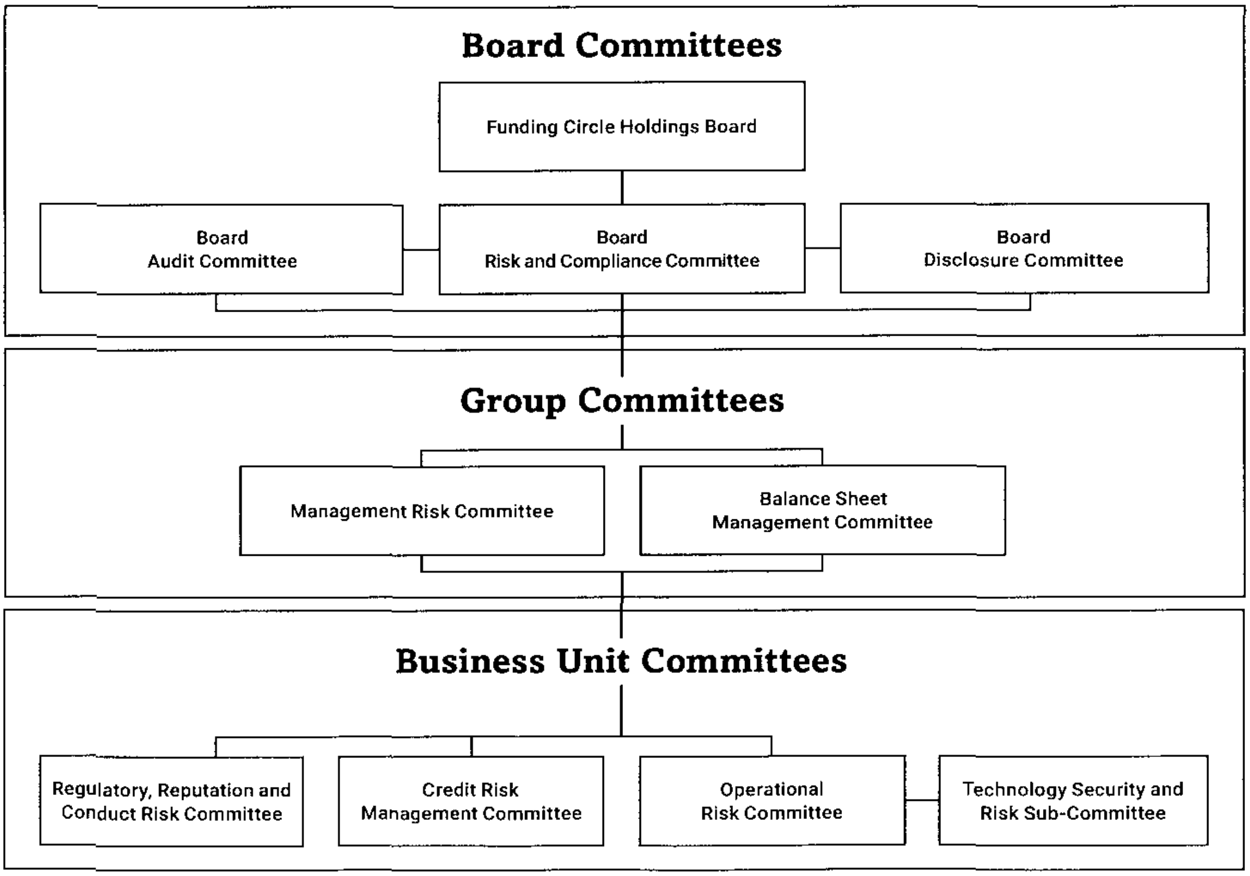
Risk governance

Funding Circle has a risk governance framework that is documented in the ERMF. Responsibility for defining and approving the ERMF lies with the Board. The risk governance framework includes delegations of authority from the Group Board, the UK Board and Principal Risk Committees as appropriate.

We operate a Three Lines of Defence model across all markets in which we operate. Funding Circle's Three Lines of Defence model and risk governance structure have been designed to manage our principal risks in a consistent manner across the Group.

The Board Risk and Compliance Committee ("RCC") is supported by the Executive Risk Committee ("ERC"), comprising the members of the Global Leadership Team. The ERC has sub-committees focused on each principal risk, as set out below.

Risk governance structure



Risk management continued

Risk culture continued

Management Risk Committee

The MRC reviews all principal risks across the Group. Strategic risks and environment, social and governance risks are managed by the leadership team of each Business Unit and reviewed at the MRC.

Balance Sheet Management Committee

The Balance Sheet Management Committee is responsible for oversight of Group balance sheet risk.

Credit Risk Management Committee

The Credit Risk Management Committee's focus is on ensuring that the credit risk of each Business Unit's loan portfolio is adequately managed.

Regulatory, Reputation and Conduct Risk Committee

The Regulatory, Reputation and Conduct Risk Committee focuses on the management of regulatory, reputation and conduct risks, and oversees new product approvals.

Operational Risk Committee

The Operational Risk Committee's focus is to ensure that operational controls are effective and that operational and financial crime risks are adequately managed in each Business Unit.

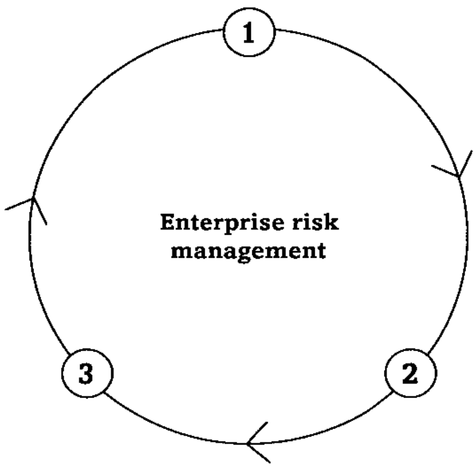
Technology Security and Risk Sub-Committee

The focus of the Technology Security and Risk Sub-Committee is to ensure effective governance and controls are in place for the ongoing management of risks that could impact the performance, stability, information security and resilience of the technology infrastructure and operations that support our key business and compliance processes.

Risk assessment framework

A standard risk assessment framework is used to evaluate risks at both the Business Unit and Group levels, enabling consistent measurement. Risk assessments are carried out by those individuals, teams and departments that are best placed to identify and assess potential risks. They are supported in this process by our Risk and Compliance teams.

We typically follow the evaluate/respond/monitor methodology:



1. Evaluate
- Identify key risks
- Set risk appetite
- Assess adequacy of existing controls
- Estimate residual risk

2. Respond
- Design control improvement plans
- Prioritise remediation work and assign responsibilities

3. Monitor
- Track business performance vs. risk appetite
- Report, analyse and escalate risk incidents
- Identify new or emerging risks
- Track delivery of agreed control improvements

Evaluate

As part of its responsibilities under the ERMF the Board has formally recognised a series of risks that are continuously present at Funding Circle and can materially affect the achievement of Funding Circle's objectives. These risks have been organised under a consistent and simple taxonomy with a hierarchy of risk categories, which facilitates risk management and oversight. The management of these risks is assigned to designated business owners who formally assess on a regular basis the level of these risks, the adequacy of controls and the need for further mitigations.

Respond

The appropriate risk response ensures that risks are within appetite. At Funding Circle we have four types of possible risk responses:

- accept the risk;
- take mitigation actions (such as additional risk controls) to reduce the risk;
- stop the existing activity/do not start the proposed activity to remove the risk; or
- continue the activity and transfer the risk to another party (e.g. insurance).

Monitor

Monitoring and reporting on Funding Circle's risk exposures are undertaken through risk governance structures. The RCC receives a consolidated risk report no less than three times a year detailing the risks facing the Group and mitigation plans, as well as risk outlook. The RCC is also provided with metrics and regular reports about the activities of the Risk and Compliance functions.

Risk assurance

Assurance on the management of risk is provided by the Three Lines of Defence model including the Internal Audit function. We also execute external annual controls assurance reports (e.g. United Kingdom ISAE 3402 and US Soc 1 Type 2) certified by auditors

Principal risks and uncertainties

The Board confirms that throughout 2022 a robust assessment of the principal risks facing Funding Circle was completed. A comprehensive list of Group-wide risks and emerging risks was reviewed and monitored throughout the year. The most significant risks and uncertainties faced by Funding Circle are listed in the table below, categorised by principal risk:

Strategic risk

Strategic risk is defined as the failure to build a sustainable, diversified and profitable business that can successfully adapt to environment changes due to the inefficient use of Funding Circle's available resources.

Risk appetite Funding Circle will make efficient use of its available resources to build a sustainable, diversified and profitable business that can successfully engage with and manage environmental, social and governance ("ESG") issues including climate change risks.

Key risks	Management of risk	Change in risk in year
Strategic risk		
The risk that Funding Circle does not achieve its key business objectives and maintain its competitive advantage and business operations.	The Global Leadership Team ("GLT") manages the strategic planning process based on risk appetite, financial considerations, strategic themes and economic assumptions. At Funding Circle, we manage strategic risk by: • performing an in-depth business strategy review at least once a year; • reviewing financials, strategic plans for new products/initiatives, and other management information; • reviewing the strategic risk implications of new products, business expansion, and other Company initiatives; and • the Board providing oversight of strategic risk and approving business strategic plans at least annually.	↗ Strategic risk continues to be high given the current macroeconomic climate, and its impact on SMEs. This is likely to lead to fluctuations in borrower and investor demand over the near to mid-term. There is also material uncertainty in the interest rate environment and from inflation, which continue to affect loan return expectations and the pricing of Funding Circle loans. Funding Circle has also launched new products such as FlexiPay for which performance and demand may be uncertain until they reach scale. Funding Circle is monitoring these trends carefully and is continuously adjusting product offerings to fit market conditions and meet evolving demand.

Principal risks and uncertainties continued

Strategic risk continued

Key risks	Management of risk	Change in risk in year
Economic environment		
Financial risk that is associated with macroeconomic or political factors that may affect Funding Circle's financial and/or credit performance.	We continually monitor the health of our loan portfolios and perform stress test simulations to help ensure that loan returns remain resilient in the context of risk volatility. Key mitigating actions include (but are not limited to): • annual stress testing of loan portfolios in each market; • resilient credit strategy and continuous tuning of risk and pricing parameters to correct for possible deviations in returns; • independent validation and continuous monitoring of the performance of credit risk models; • monthly monitoring of internal and external signals as part of the Credit Risk Management Committee meetings; • agile capability to rapidly deploy pricing and credit strategy adjustments deemed necessary; and • experienced in-house collections and recoveries capabilities with built-in scalability.	↗ After a short-lived post-Covid-19 fast recovery, most of the world economies entered a cycle of high inflation exacerbated by the Ukraine war and the following energy shock. This led to a fast deteriorating economic outlook as central banks went onto multiple increases of interest rates to tame the inflationary pressure, with moderate success so far. Although we have started to see stabilisation and potential improvement in the US with divergences about the probability of a recession, the economic outlook for the UK remains recessionary for 2023 and 2024, exacerbated by other factors such as political turmoil and Brexit. In this context, we are continuously adjusting our credit strategies to ensure that returns meet investors' hurdles in an environment of increasing risk-free rates and constantly monitor credit performance to adjust our underwriting framework and models as needed. We are doing so tactically, taking into account the risk dynamics of our different products and the different dynamics between the US and the UK

Strategic risk continued

Key risks	Management of risk	Change in risk in year
Environmental, social and governance risk		

Environment, social and/ or governance events or circumstances could cause an actual or potential material negative impact on Funding Circle's financial performance or reputation.	• Our ESG framework outlines our approach to ESG and is approved by the Board.
	• The Board retains ultimate responsibility for providing the strategic focus, support and oversight for the implementation of the Group's ESG strategy, including for climate-related risks and opportunities. The Board delegates certain matters related to climate-related risks and opportunities to two Committees:
	  • the ESG Committee is responsible for oversight of the Group's overall ESG strategy, including climate-related opportunities and voluntary commitments; and
	  • the Risk and Compliance Committee is responsible for oversight of risk management related to ESG risks, including climate-related risks.
	Climate change risk
	Funding Circle is committed to managing the transition and physical risks of climate change, and making progress on our strategic commitment to align to net zero.
	The Board has reviewed and approved our strategy related to climate change and the environment. Our ambition is to reach net zero by 2050 in line with the UK government's commitment, while setting a stretch target to reach net zero by 2030 for our operational emissions. We have not yet developed an annual transition plan or set science-based targets but we continue to progress our strategy with support from climate and industry experts, including for our Scope 3 financed emissions (GHG Protocol Category 15). We will avoid greenwashing and will look to deliver accurate and transparent information on our impacts and progress (including through our TCFD disclosure).
		→
		We continue to integrate ESG risks as part of our ERMF and mature our ESG framework.
		We continue to assess our ESG risks and opportunities and to further embed them into day-to-day practices and first-line teams.
		In 2021 we disclosed a commitment to be net zero by 2030. The interpretation of net zero for disclosure purposes continues to evolve with the development of available standards and methodologies to define and understand the term. In line with this evolution, we have now reviewed our climate goals towards more precise and realistic objectives.

Principal risks and uncertainties continued

Funding and balance sheet risk

Funding and balance sheet risk is defined as the risks associated with platform funding (matching borrower demand and supply of funding), capital commitments and corporate liquidity through normal and stress scenarios.

Risk appetite Funding Circle will make efficient use of its balance sheet and optimise and diversify funding and liquidity sources to enable a balanced funding strategy whilst limiting downside risk.

Key risks	Management of risk	Change in risk in year
Funding risk **The risk that demand from borrowers for loans cannot be fulfilled when and where they fall due or can only be met at an uneconomic price. This risk varies with the economic attractiveness of Funding Circle loans as an investment, the level of diversification of funding sources and the level of resilience of these funding sources through economic cycles.**	Funding Circle's business model is to be a lending platform that efficiently matches the supply of capital to the demand of SME borrowers. We carefully manage this matching by: • building long-term relationships with investors and developing a forward-looking pipeline of new investors; • actively managing concentration risk and diversifying sources of funding; • managing Funding Circle's lending activities whether through direct lending capacity, securitisation capacity or investment fund lending vehicles; • monitoring a broad range of management information and key performance indicators at the Balance Sheet Management Committee, RCC and Board level; and • leveraging a seasoned team for capital markets sales and transactions structuring.	↗ In the UK in 2022, we returned to non-government-guaranteed lending following the end of the RLS scheme. This coincided with a material downturn in the economic environment as the risk of a recession increased, while inflation resulted in a sharp increase in market interest rates. Despite this worsening environment, we experienced demand from institutional investors to fund new loans. This demonstrates the trust our funding partners place in the soundness of our risk management, and the experience they had with previous investments that delivered positive returns despite the Covid-19 crisis, but it did result in FC requiring to raise rates to maintain loan returns, transactions taking longer to execute, and investors requesting increased protection. We have onboarded new investors, continuing the trend from the previous years, with new asset managers, and we have strong institutional relationships providing a good basis for our future funding needs. Similar to the UK, the US has been navigating a deteriorating economic environment and a challenging rate environment. In addition, increased regulatory scrutiny of bank and fintech relationships has created a number of challenges for a subset of investors. Despite the above, new investors continued to be added to the platform over the course of 2022, although commitments were lower than initially expected. In early H2 institutional investors were increasingly cautious of the short and medium-term outlook.

Funding and balance sheet risk continued

Key risks	Management of risk	Change in risk in year
Balance sheet risk **The risk that Funding Circle investment positions reduce in value or cannot be exited at an economically viable price.** **The risk that Funding Circle liabilities cannot be met when and where they fall due or can only be met at an uneconomic price.**	We carefully manage this risk by: • setting clear guardrails for Funding Circle balance sheet exposures and following a set of agreed investment principles to guide capital allocation; • maintaining a prudent level of liquidity to cover unexpected outflows to ensure that we are able to meet financial commitments for an extended period, including under stress scenarios; • considering a broad range of management information and key performance indicators at the Balance Sheet Management Committee and RCC level; and • leveraging a dedicated and experienced Balance Sheet Management team.	→ Our overall approach to having a robust balance sheet and prudent management of liquidity remains unchanged. We have simplified our balance sheet in the year and successfully unwound two of our consolidated securitisation vehicles, one in the UK and one in the US, resulting in us holding SME loans directly instead of higher risk residual tranches of junior bonds. We have sold the majority of the related UK SME loans (securitised) at a viable price and expect quick amortisation or opportunities for sale of the related US loans. We have temporarily utilised our balance sheet to originate SME loans to ensure continuity of funding while onboarding new investors. We sold the majority of these loans in February 2023. We have sufficient disposable cash to cover our liquidity needs, including when tested against stressed liquidity scenarios, and to fund our medium-term plan going forwards.

Principal risks and uncertainties continued

Credit risk

Credit risk is the risk of financial loss to an investor should any borrower fail to fulfil their contractual repayment obligations. Credit risk management is the sum of activities necessary to deliver a risk profile at portfolio level in line with Funding Circle management's expectations, in terms of net loss rate, risk-adjusted rate of return and its volatility through economic cycles.

Risk appetite Whether or not Funding Circle owns any credit risk, credit risk of loans will be managed with the utmost care and attention to deliver credit performance and returns in line with expectations.

Key risks	Management of risk	Change in risk in year
Credit risk		
Borrower acquisition **Credit performance and returns of new loans can deviate from expectations due to several factors: changes in credit quality of incoming applications, calibration of risk models or strategy parameters, and control gaps in processing loan applications.** **Portfolio risk management** **Credit performance and returns of existing portfolio can deviate from expectations due to several factors: deterioration of credit environment, increased competition driving higher prepayment rates, effectiveness of portfolio monitoring, collections and recoveries.**	Funding Circle's aim is for well balanced loan portfolios that generate positive returns for investors through the economic cycle We are actively managing credit risk by: • formulating credit risk policies (covering credit assessment and risk grading, portfolio monitoring and reporting, collections and recoveries) and ensuring adherence to these policies; • recruiting, training and managing expert risk professionals with the adequate skills, objectives and capacity; • establishing the formal mandates and authorisation structure for setting risk parameters and approving loans; • performing independent quality control of credit decisions; • limiting concentration risk to counterparties and industries; • actively monitoring the performance of the loan portfolios and the market trends that could affect performance; • implementing adequate procedures and controls for model risk (including the independent validation and monitoring of credit scoring models); • performing annual stress tests with high-quality standards; and • with regards to government programmes, tightly controlling adherence to eligibility criteria	↗ Whilst our portfolios in the US and UK are showing resilience and generally performing better than expectations – with returns expectations improving – we do take the economic environment with its inflationary pressure as a significant challenge to our borrowers and are adopting a more prudent approach to credit risk and more intense monitoring of our existing lending volumes. Funding Circle is entering 2023 in a strong position from a credit risk standpoint, capitalising on our data and experience since our inception. Our credit risk approach involves: • adequately staffed and well trained Collections and Recoveries department; • forbearance tools and policies fully integrated in the customer life cycle management; • constant portfolio monitoring with credit insights fed into the underwriting policies/ models and flexible decisioning infrastructure; and • regular pricing reviews to ensure adequate risk-adjusted returns for our investors in a higher interest rate environment.

Regulatory, reputation and conduct risk

Regulatory, reputation and conduct risk is defined as engaging in activities that detract from Funding Circle's goal of being a trusted and reputable company with products, services and processes designed for customer success and delivered in a way that will not cause customer detriment or regulatory censure.

Risk appetite Funding Circle will not engage in activities that detract from its goal of being a trusted and reputable financial services company with products, services and processes designed for customer success and delivered in a way that will not cause customer detriment or regulatory censure.

Key risks	Management of risk	Change in risk in year
Regulatory risk **The risk that Funding Circle's ability to effectively manage its regulatory relationships is compromised or diminished, that the Group's governance and controls framework is not satisfactory given business growth, or that there is business interruption by reason of non-compliance with regulation or the introduction of business-impacting regulation.**	• We remain vigilant to proposed changes affecting our business and we engage with policy makers where relevant. We have continued to invest time and resources in external relations, including educating policy makers, regulators and other influencers on the features, benefits and impact of platform lending • We continue to implement and maintain business practices and controls focused on regulatory risk, including controls designed to comply with the Senior Managers and Certification Regime. • We continue to focus on governance and controls and train all employees in such matters as are relevant to their role. • We have increased our focus on ESG-related risks, including TCFD regulatory disclosure; we continue to work with service providers to assist with emissions measurement, verification and disclosure.	→ In the UK, there is continued regulatory attention regarding the viability of firms and the possible consumer harm in the event of firm failure The amortisation of the UK retail investor product has reduced this risk materially, although the persistent level of client money held continues to be of interest to regulators. ESG-related risk is an area of expected increased regulation, for example in the form of mandatory disclosures (including on net zero transition plans reporting by companies or ESG-related investment product labels). Proactive monitoring continues as this area evolves. In the US, an increase in regulatory scrutiny in connection with the occurrence of fraud in the legacy Payment Protection Program may pose a risk of greater regulatory focus; however, Funding Circle does not believe this poses a material risk as we maintained our standard fraud risk management practices in respect of the PPP and the incidence of fraud experienced by Funding Circle during the PPP was broadly in line with expectations and materially lower than some other participants that have received most attention. In addition, various bank regulators in the US have expressed concern with regard to bank risk management practices in connection with partnerships with fintechs. While this concern is focused on the banks themselves rather than fintechs individually, this increased scrutiny may result in changes to bank practices and increased operational requirements and burdens in relation to their fintech partnerships.

Principal risks and uncertainties continued

Regulatory, reputation and conduct risk continued

Key risks	Management of risk	Change in risk in year
Reputation risk		
Operational or performance failures could lead to negative publicity that could adversely affect our brand, business, results, operations, financial condition or prospects.	We continue to implement and maintain business practices and controls focused on reputation management, including: • ensuring RCC consideration of new or iterated products and initiatives; • engaging fully with regulators when required, and external advisers in relation to any new or iterated products and initiatives that might impact on customer outcomes; • undertaking specific projects to address identified risk topics and issues, including retrospective reviews, internal audit reviews and monitoring and testing programmes; and • updating and refining our approach to issue and risk identification and management.	→ The introduction of the FlexiPay product in the UK will add additional complexity and risks related to operations and performance as the product scales. We are closely monitoring the operational and product performance as it scales. However, further improvement and iteration may be required as the product matures.
Conduct risk/treating customers fairly		
Funding Circle's activities (or the failure to satisfactorily perform its activities) could impact the delivery of fair customer outcomes.	• We perform regular quality assurance reviews at a product level, conduct monitoring and testing periodically in regard to compliance with specific regulatory requirements, and undertake regular management reporting to identify potential performance weaknesses and customer impacts for review by senior management for oversight through various risk committees. • Conduct rules training has been developed and rolled out across the UK business. • Compliance Monitoring and Testing and Internal Audit functions continue to test to provide assurance that Funding Circle's activities and processes are designed to deliver fair customer outcomes. • We have a dedicated Business Support Team incorporating our Complaints Handling Team and a specific team focused on vulnerable customers	→ Complying with applicable laws and regulations and ensuring positive customer outcomes continue to be fundamental priorities for Funding Circle. Despite the challenges of oversight and monitoring of employees and controls in a hybrid environment, we do not consider this risk to have increased.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk appetite Funding Circle will operate well managed processes with reliable performance and effective controls preventing significant and non-anticipated operational risk losses.

Key risks	Management of risk	Change in risk in year
Process risk		
Failure to originate and service loans in line with Funding Circle internal policies, investor guidelines and third party loan guarantees (e.g. the British Business Bank and Small Business Administration) may result in Funding Circle repurchasing loans from investors. **The risk of operational incident could impact the ability to originate new loans or the ability to service loans through collections from borrowers and return of money to investors.**	We actively manage process risk by: • continuing to automate key controls; • performing robust first-line quality assurance and secondary checks on manual processes; • monitoring and testing of key controls; • reviewing key risk indicators as part of the Business Unit Operational Risk Committee; • reporting, reviewing and resolving operational errors; • performing independent quality control checks and ensuring highlighted issues are resolved; • implementing adequate policies and procedures; • providing training and education on risk culture and risk management; and • performing supplier due diligence and undertaking ongoing performance monitoring of key suppliers.	→ We continued to actively manage process risk with robust first line of defence controls which is reflected in fewer loan repurchases from investors, upheld complaints and operational errors. We have robust controls in place, as well as independent quality checks to ensure that all loans originated (unsecured and government schemes) are compliant with loan eligibility requirements. The forecasted growth in Funding Circle's FlexiPay product potentially increases operational risk and there is also a higher intrinsic risk of the product relative to SME loans. In 2022, we piloted a controls library to manage FC key controls, which we will continue to mature as part of our internal control environment. We also perform external assurance over our internal controls with satisfactory reports for FY 2022: • United Kingdom – PwC tested internal controls over the loan servicing processes of Funding Circle Ltd ("FCL") in accordance with the International Standard on Assurance Engagements (ISAE 3402) Control Report; and • United States – Grant Thornton tested internal controls over the loan servicing processes of Funding Circle USA ("FCUS") in accordance with the Service Organisations Control Assurance (SOC 1 Type 2) Report.

Principal risks and uncertainties continued

Operational risk continued

Key risks	Management of risk	Change in risk in year
Information security **Failure to protect the confidential information of Funding Circle's borrowers, investors and IT systems may lead to financial loss, reputational damage and regulatory censure.**	• Our Director of Information Security is responsible for managing information security by: identifying threats and protecting Funding Circle client information and assets; detecting security threats before they disrupt operations; responding to alerts; and ensuring we have the ability to recover from incidents. • Information security is a priority for Funding Circle as a technology-driven company. As such we maintain in-depth defence with a multi-layered control infrastructure. • Information security has a direct line of sight to the Board via the Technology Security and Risk Sub-Committee, Operational Risk Committee and Executive Risk Committee which feed into the Board Risk and Compliance Committee.	↘ In 2022, we continued to see improvements in our information security infrastructure with a strong focus by the FCH Board. We improved our incident response preparedness by testing our triage and reaction to cyber incidents at various points during the year. Further improving our information security controls will remain a key focus as the threat environment continues to evolve. In addition, we achieved a 2% failure rate for phishing tests for the Company compared to the industry global average failure rate of 4%.
Technology risk **Failure of the technology platform could have a material adverse impact on Funding Circle's business, results of operations, financial condition or prospects.**	• We have robust risk governance structures in place with direct oversight for technology risk to ensure that they are within risk appetite – Board Risk and Compliance Committee, Executive Risk Committee, Operational Risk Committee and Technology Security and Risk Sub-Committee. • We continue to make significant investments in our technology platform to ensure that the platform is resilient and scalable to support business growth.	→ Technology risk and technical resilience continue to improve with more robust testing capabilities in place to support changes before production implementation. We have also improved our technology automation, alerting and incident response capability to maintain a stable platform to enable business growth, scalable products and services.
Data risk **Failure in our ability to acquire, use, secure and transform our data assets could result in adverse material impacts across Funding Circle.**	• Our data risk management framework is aligned to the Funding Circle ERMF. • Data risks are appropriately managed based on materiality and are escalated to the Business Unit Operational Risk Committee as appropriate.	→ We continue to mature and embed our data governance framework and organisational structure to manage data risk including the implementation of new tools to maintain the standards of documentation, clarity and integrity of our data. Protecting our customer and employee data, in particular PII, is a high priority for Funding Circle, and we take appropriate measures to prevent loss or breach of data.

Operational risk continued

Key risks	Management of risk	Change in risk in year
Financial crime		
Risk of regulatory breach, financial loss or reputational damage arising from a failure to adequately manage or prevent money laundering, terrorist financing, bribery and corruption, or to comply with sanctions regulations.	• Complying with the laws and regulations designed to counter money laundering, terrorist financing, corruption and bribery is fundamental to Funding Circle's operations. • The Board has adopted policies to address financial crimes that have been implemented by Business Units through formal standards and procedures. • We have a dedicated Financial Crime Operations team within the first line of defence that is advised, challenged and monitored by the second-line Financial Crime Compliance team.	→ In the UK, the introduction of the FlexiPay product will add additional complexity and risks related to money laundering and fraud as the product scales. We continue to undertake rigorous fraud, anti-money laundering and Know Your Customer checks as part of our processes; however, further improvement and iteration may be required as the product matures. We continue to closely monitor the incidence of fraud with this product so that we may implement additional controls if required.
Client money risk		
Failure of Funding Circle to adequately protect and segregate client money may lead to financial loss, reputational damage and regulatory censure.	Funding Circle holds funds for retail and institutional investors in segregated client money bank accounts in line with the Financial Conduct Authority's CASS regulations. We continue to manage the risk through: • a monthly CASS governance sub-committee focused on providing oversight and challenge regarding the effectiveness of client money controls, making decisions in relation to client money and reviewing management information and regulatory returns, as well as reviewing risks and mitigating controls when introducing new product cash flows into client money framework; • oversight from the Funding Circle Ltd Board including an Annual Report and quarterly management information, prepared for and approved by the Senior Manager with responsibility for the firm's compliance with CASS, that reviews client money arrangements and highlights key risks and steps to mitigate; • specific compliance monitoring activity; • periodic internal audit reviews covering governance and control over client assets; and • annual CASS external audit providing an opinion on compliance with the CASS rules.	↘ In 2022, we have maintained a robust control environment in relation to payment *creation, payment authorisation,* reconciliation review and monthly reporting. The controls created for the money flows related to trust structures needed to participate in the UK government schemes (CBILS, BBLS and RLS) are embedded in the control environment alongside the controls for non-government-guaranteed lending. Funding Circle returned to commercial lending following the end of the participation in the RLS scheme in 2022. Funding Circle continued to enhance its forbearance offering for borrowers, building the capability to process partial payments from borrowers whose loan moved into late status. New controls were implemented for the late payment money flow. Monitoring of controls for partial payments from borrowers on payment plans and in late status continued throughout the period to ensure controls were operating as expected and fully embedded within the control environment. The FCA's increased focus on client assets continued during 2022 and the considerations given to the published "Dear CEO" letter in 2020, addressing the increased client money balances, continued to be monitored by the UK Board. Proactive contact continued to be made with our retail investors to create awareness of funds available to withdraw and we have seen the balance held continue to reduce throughout 2022.

Viability statement

In accordance with the UK Corporate Governance Code (the "Code"), the Directors have assessed the future prospects and viability of the Group for a period significantly longer than 12 months from the approval of the financial statements.

Assessment of prospects

The Directors have determined that a three-year period to 31 December 2025 constitutes an appropriate period over which to perform the assessment as:

- it is consistent with the Group's medium-term planning process;
- it represents a period over which there is a reasonable degree of confidence in the reliability and accuracy of forecasts; and
- periods beyond this point in a high-growth business like Funding Circle are significantly harder to predict accurately.

The Group's overall strategy and business model, as set out on pages 18 to 19, and 22 to 23, are fundamental in driving the growth of the business and therefore its future prospects. The key factors that are likely to affect the future prospects of the Group, aside from macroeconomic factors, include the ability to:

- develop and introduce new lending products;
- grow awareness of the Funding Circle brand in order to attract more businesses to our platforms;
- diversify and increase funding from a variety of investors in order to meet future borrower demand; and
- continue to invest in data analytics and technology leading to innovation, expanded datasets, enhanced credit models, better customer experience and a greater conversion rate of applicants.

Funding Circle's future prospects are assessed through the Group's strategic planning process. The strategic planning process involves a detailed review of the medium-term plan by the CEO and CFO. This is done in conjunction with the Global Leadership Team, consisting of regional and functional leaders, together with a review and discussion by the Board.

The strategic plan starts with the Group's 2023 annual budget which is subject to reforecasting periodically through the year. The budget is extended into the second and third year of the plan using the Group's various drivers and expected growth rates experienced across the Group.

Progress against the financial budget and forecasts is then reviewed each month by the Global Leadership Team and reported to, and challenged by, the Board.

Key assumptions

The key assumptions underpinning the strategic plan (before severe but plausible scenarios) include:

- there is sufficient investor funding in place to support projected growth in originations;
- levels of marketing spend, the number of applications, conversion rates, average loan sizes and mix of product channels which drive originations and loans under management ("LuM");
- levels of repayments, prepayments, defaults and recoveries which drive movements in LuM;
- expected yields on loans originated and service fee charges which drive fee income;
- interest income receipts and interest expenses related to our investment vehicles which drive net investment income;
- costs across geographies with specific focus on fixed costs and those that fluctuate with income such as marketing costs;
- headcount consideration across functions and departments given it is the Group's largest cost;
- an assumption of continued investment in the Group's IT infrastructure and its product set but with the expectation of no fundamental breakdown in the IT infrastructure or major data loss; and
- review in the context of indicative market share in each geography.

Following the disruption to all SMEs caused by various macroeconomic events such as the war in Ukraine, energy prices and inflation, we expect that the economy and SMEs do recover from the current market conditions but not starting until in 2024.

We have not assumed further government stimulus packages over the medium term.

Assessment of viability

The output of the medium-term plan reflects the Directors' best assessment of the future prospects of the Group over the next three years.

As part of this assessment, the Directors have considered and carried out a robust assessment of the principal risks as set out on pages 59 to 69. They have also considered the potential impact of the risks on the viability of the Group with specific focus on shorter-term liquidity needs and its availability, including liquidity currently tied up in investment products. The Group currently holds £166 million of unrestricted cash together with £97 million equity invested in loans.

The financial plan was subject to differing scenarios to assess those risks and quantify the financial impact on the Group. The Group also operates liquidity and capital guardrails that it monitors which are of particular importance in the shorter term.

The scenario that represented the most severe but plausible scenario was modelled as described below. This sensitivity took into account the likely mitigating actions to the operations. The scenario is hypothetical and severe but designed to stress the business model and the viability of the Group.

Severe but plausible scenario

Under a severe downturn it is expected that:

- there would be a short-term period in year one where there would be significantly reduced transaction fees earned, gradually normalising over the medium-term;
- following a further severe global downturn there would be a significant increase in the number of borrowers defaulting impacting LuM and our invested capital cash flows;
- the returns for investors would be negatively affected resulting in a withdrawal of funding; and
- this in turn would reduce the level of originations unless higher incentives were offered to investors to continue funding.

A further subset of risks, including the reduction in trust from both borrowers and investors, has also been considered within this scenario. We considered whether environmental stress would materially impact the Group but consider the existing stresses above would be more material to the near to medium term.

The mitigating actions that would be taken by management include a reduction in the overall marketing and salary spend, a tightening of the credit models to improve the levels of return for investors and increased costs of borrowing for SMEs. Our medium-term plan assumes we continue to be the sole equity funder of FlexiPay.

In a stressed scenario, a further management action is that we would curtail the growth of FlexiPay and this would reduce the level of investment required by Funding Circle.

Links to principal risks and uncertainties

- Strategic risk
- Credit risk
- Liquidity risk

Going concern and viability

The stress testing confirmed that the Group's forecast net cash position remained positive and that none of the scenarios would threaten the viability of the Group over the assessment period or the Group's financial covenants and regulatory capital requirements.

In all cases including the severe but plausible scenario above, with appropriate management actions, the scenarios were controllable to mitigate the impact on the Group's liquidity for the broader assessment of the Group's viability.

The shorter term projections within the Group's strategic plan are also used to assess the Group's ability to operate as a going concern. As at 31 December 2022, the Group had net assets of £284 million, together with unrestricted cash of £166 million and £97 million of invested capital, some of which could be monetised if liquidity needs arise. At all times during the assessment, and after stress scenarios are modelled, the Group retains sufficient financial resources.

The Group has financial covenants with institutional investors for servicing agreements for which there are unrestricted cash, tangible net worth and debt to tangible net worth ratios. At all times through the forecast period, and after stress scenarios, the Group remains within the required levels.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities and obligations as they fall due over the period to 31 December 2025 as well as for at least the next 12-month period from the date of this Annual Report.

Corporate governance

Introduction from the Chair

Andrew Learoyd
Chair

I am delighted to introduce Funding Circle's Corporate Governance Report for the financial year ended 31 December 2022.

As I have written in the Strategic Report, this coming year will not be easy given the headwinds in our core UK economy. As a Board, we know that a key element to navigating through uncertainty is a strong and resilient corporate governance foundation that ensures Funding Circle is a successful, sustainable business that benefits all our stakeholders over the long term.

We have refreshed our Corporate Governance Report this year to explain how we have applied the principles of the UK Corporate Governance Code 2018 (the "Code") and the reasons for any non-compliance.

You will find more information in this report on how we have used statute, regulation, the Code and our values to ensure we have good governance that demonstrates the right behaviours and culture that we wish to see throughout the organisation. The work of all our Committees is key to that so I encourage you to read the Committee reports on pages 88 to 100.

Our Committees do much of the heavy lifting to ensure that we are applying high standards of corporate governance at Funding Circle. Our reputation, our sustainability and our impact depend on a robust system of oversight and controls across all areas of risk, compliance, regulation, financial controls, people and environment. The Committees are responsible for this oversight; they report to the Board and enable the Board to focus more of its time on strategic direction.

Andrew Learoyd
Chair
2 March 2023

"We know that a key element to navigating through uncertainty is a strong and resilient corporate governance foundation that ensures Funding Circle is a successful, sustainable business"

Board of Directors

1 2 3 4

5 6 7 8

9 10 11

1. Andrew Learoyd
N R E D

Chair of the Board

Term of office: Appointed to the Board as a Non-Executive Director in February 2010 and became Chair of the Board in May 2016.

Independent: On appointment.

Skills and experience: Andrew spent 23 years working in investment banking as a research analyst, in corporate finance, in equity capital markets and finally as Chief Operating Officer of the Equities Division in Europe of Goldman Sachs He retired as a Managing Director of Goldman Sachs in 2006 Andrew has been involved as an angel investor, Non-Executive Director and consultant to several start-up businesses

External appointments: Andrew is also an independent Non-Executive Director of Funding Circle Ltd He is currently a Non-Executive Director of Threshold Sports Limited, which creates and delivers outdoor events for the public, corporate and charity sectors. Andrew is also a Director of WLG Learning Ltd which provides educational services for children with special learning disabilities

2. Lisa Jacobs
D

Chief Executive Officer

Term of office: Lisa was appointed to the Board as Chief Executive Officer on 1 January 2022

Independent: Not applicable

Skills and experience: Lisa joined Funding Circle in 2012 and was previously UK Managing Director and Chief Strategy Officer Prior to Funding Circle, Lisa worked as a Management Consultant, both independently and for the Boston Consulting Group, where she had a financial services focus She has had roles in NGOs in Tanzania and India.

External appointments: None.

3. Samir Desai CBE

Founder, Non-Executive Director

Term of office: Samir co-founded Funding Circle in 2010 and was previously Chief Executive Officer. He transitioned to a Non-Executive Director role in January 2022.

Independent: No.

Skills and experience: Prior to founding Funding Circle, Samir was a Management Consultant at the Boston Consulting Group and an Investment Executive at Olivant, a private equity firm that invests in financial services businesses in Europe, the Middle East and Asia. In 2015, Samir was awarded a CBE for services to financial services.

External appointments: Samir is the CEO and Founder of Super Payments Holdings and Super Payments Ltd

4. Oliver White
D

Chief Financial Officer

Term of office: Oliver was appointed to the Board as Chief Financial Officer on 15 June 2020

Independent: Not applicable

Skills and experience: Oliver has spent the majority of his 30 years' experience working in financial services, payments and lending He joined from Vanquis Bank where he served as Chief Financial Officer. He was formerly the Chief Financial Officer at Barclaycard, where he managed a global business with combined assets of £40 billion, £5 billion of revenues and £1 6 billion of profits Oliver is a chartered management accountant and holds an MBA from Warwick Business School

External appointments: None

5. Eric Daniels
RC (Chair) **A**

Non-Executive Director

Term of office: Eric was appointed to the Board as a Non-Executive Director in September 2016. He became Chair of the Risk and Compliance Committee in September 2018.

Independent: Yes.

Skills and experience: Eric was previously Group Chief Executive Officer of the Lloyds Banking Group, the FTSE 100 listed banking group, retiring in 2011. Prior to joining Lloyds in 2001, he spent 25 years with Citigroup in a range of management positions.

Eric holds a Master of Science in Management from the Massachusetts Institute of Technology and a Bachelor of Arts in History from Cornell University.

External appointments: Eric currently holds a range of appointments which include as a Non-Executive Director of Russell Reynolds Associates and membership on the Advisory Board of the Smithsonian Tropical Research Institute He also advises on a number of private companies.

6. Geeta Gopalan
A (Chair) **RC N D**

Senior Independent Director

Term of office: Geeta was appointed to the Board as a Non-Executive Director in November 2018. She became Chair of the Audit Committee in November 2018 Geeta was appointed as Senior Independent Director in May 2021.

Independent: Yes.

Skills and experience: Geeta has over 25 years of experience of financial services and retail banking, particularly payments and digital innovation. Geeta was formerly Executive Chair of Monitise Europe. Among the many roles in her career, Geeta was Director of Payment Services with HBOS plc and previously Managing Director, UK Retail Bank and Business Development Head EME at Citigroup. She is a chartered accountant.

External appointments: Geeta serves as Non-Executive Director of Virgin Money UK PLC (formerly CYBG plc) (where she is Chair of the risk committee) and serves as a Non-Executive Director of Dechra Pharmaceuticals. Geeta is also a Trustee for the Old Vic Theatre

7. Hendrik Nelis

Non-Executive Director

Term of office: Hendrik was appointed to the Board as a Non-Executive Director in September 2013.

Independent: No

Skills and experience: Hendrik joined Accel in 2004 and focuses on software, fintech and consumer internet companies. He led Accel's investments in KAYAK (NASDAQ: KYAK, acquired by Priceline), Showroomprive (EPA. SRP), Funding Circle (LON: FCH), Callsign, Celonis, CHECK24, Instana, Miro and Zepz

Hendrik started his career in Silicon Valley as an engineer at Hewlett-Packard before founding a venture-backed software company He is from the Netherlands and graduated from Harvard Business School and Delft University of Technology.

External appointments: Hendrik serves as Manager, Partner Director and/or Member at a number of Accel entities, as well as a Director or supervisory board member of several other companies

8. Neil Rimer
E

Non-Executive Director

Term of office: Neil was appointed to the Board as a Non-Executive Director in March 2011.

Independent: No.

Skills and experience: Neil is a Co-Founder and Partner of Index Ventures. Before starting Index Ventures, he spent four years with Montgomery Securities in San Francisco Neil was previously a Director of Photobox Holdco Limited, Supercell Oy and The Climate Corporation.

External appointments: Neil is currently a Director on various boards of companies based in the UK, Europe, the Cayman Islands and the US including Raisin GmbH, Nexthink SA, Pitch Software GmbH, Sofia Holdings Limited, Taxfix GmbH and Typeform S L. He is also the Co-Chair of Human Rights Watch

9. Helen Beck
R (Chair) **N E**

Non-Executive Director

Term of office: Helen was appointed to the Board as a Non-Executive Director in June 2021

Independent: Yes.

Skills and experience: Helen has over 25 years of experience in financial services, particularly in remuneration design, regulation and human resources Helen was formerly a Partner at Deloitte and, among her previous roles in her career, Helen was Global Head of Reward at Standard Bank and Head of McLagan Europe (part of Aon) and held roles in human resources at Fidelity International.

External appointments: Helen serves as Non-Executive Director of Ashmore Group PLC (where she is Chair of the remuneration committee), Non-Executive Director of Irwin Mitchell, Governor of the University of Bedfordshire and independent member of the remuneration committee for The British Olympic Association

10. Matthew King
A E

Non-Executive Director

Term of office: Matthew was appointed to the Board as a Non-Executive Director in May 2021

Independent: Yes.

Skills and experience: Matthew has over 36 years of experience in financial services. Having qualified as a solicitor with Slaughter and May, Matthew held a number of risk management positions with HSBC over a 15-year period across Asia, Australia, the Americas and Europe.

External appointments: Matthew is also the Chair of Funding Circle Ltd's Board. Matthew is currently a Non-Executive Chair of Savannah Resources plc, an AIM-listed mining and exploration company

11. Lucy Vernall
D (Chair)

Company Secretary, General Counsel and Chief People Officer

Term of office: Lucy was appointed Company Secretary in July 2014.

Independent: Not applicable

Skills and experience: Lucy is responsible for the People, Legal and Compliance functions of the business, in addition to being Company Secretary Prior to joining Funding Circle in 2014, Lucy was one of the founder members of Kemp Little LLP, a technology focused City law firm. She was Managing Partner of the firm from 2009 until 2011, when she became Wonga's first General Counsel.

External appointments: Lucy serves on the board of the charities Bardhan Research and Education Trust of Rotherham and The Emerson Trust.

Board Committees

- **A** Audit Committee
- **R** Remuneration Committee
- **N** Nomination Committee
- **RC** Risk and Compliance Committee
- **E** ESG Committee
- **D** Market Disclosure Committee
- ○ Committee Chair

Corporate governance report

Key Board activity

Attendance and schedule of meetings for 2022/23

Our Board meetings are planned around key events in the corporate calendar which include the half-year and full-year results, the Annual General Meeting ("AGM") and a full day strategy meeting. The Board also receives a monthly management financial report. The Chair and Non-Executive Directors have had the opportunity to have regular discussions without Executive Directors present.

The table below sets out attendance at Board meetings in 2022. There were seven Board meetings in total held throughout 2022 which included the strategy meeting held in October The Company Secretary attended all of the Board meetings in 2022. Attendance for the Committee meetings can be found in each of the Committee reports on pages 88 to 100.

Director	No of meetings	Attendance
Andrew Learoyd	7/7	100%
Lisa Jacobs	7/7	100%
Oliver White	7/7	100%
Eric Daniels	7/7	100%
Geeta Gopalan	7/7	100%
Hendrik Nelis	5/7	71%
Neil Rimer	6/7	86%
Helen Beck	7/7	100%
Matthew King	7/7	100%
Samir Desai	7/7	100%

There are seven scheduled Board meetings for 2023 which follow the same cadence as 2022. The Board schedule remains flexible with additional meetings scheduled as and when required.

Matters reserved for the Board

The Board has adopted a formal schedule of matters reserved for its approval and delegated other specific responsibilities to the Committees. Each Board Committee has written Terms of Reference which define the role and responsibilities of the Committee and these are reviewed, along with the schedule of matters reserved for the Board, annually to ensure they are fit for purpose. In 2022, for example, the Terms of Reference for both the Risk and Compliance Committee and the ESG Committee were updated to further define the Committees' responsibilities for monitoring ESG risk. The schedule of matters reserved for the Board and the Terms of Reference for all our committees can be found here: https://corporate.fundingcircle.com/investors/governance.

Our corporate governance framework

Our corporate governance framework is designed to provide the Funding Circle Group with a robust and resilient framework through which it can be effectively directed and controlled. The Global Leadership Team ("GLT") provides leadership in the day-to-day management and implements the strategy approved by the Board. It is supported by a number of executive committees which provide consistent reporting on key areas of the business. The Board has delegated some responsibilities to its Committees, more information on this can be found on pages 88 to 100. There is a flow of information both ways between executive committees and the GLT and the Board of directors and its Committees.

Activities of the Board

Q1 2022 (January – March):
- Full-year results announcement
- Review of Annual Report and Accounts
- Investor relations update
- Review of key policies
- US strategy
- Retail platform discussion
- FlexiPay

Q2 2022 (April – June):
- UK business deep dive
- Corporate strategy and M&A review
- Investor relations update
- ESG Committee Terms of Reference review
- Risk and Compliance Committee Terms of Reference review
- AGM

Standing agenda items at all Board meetings include:

- **Governance**
- **Committee reports**
- **CEO report including trading updates**
- **Financial and operational review**

Q3 2022 (July – September):
- Half-year results (including reforecast)
- GLT update
- FlexiPay
- Contingency planning
- EBT share purchases

Q4 2022 (October – December):
- Strategy "off-site"
- Investor relations update
- Medium-term plan discussion and approval
- 2023 budget and plan
- People update
- Technology update
- Risk and credit deep dive
- 2022 Board evaluation

Corporate governance report continued

The role of our Committees

You can find all the information you need about the role and activities of our Committees including their governance, key objectives and principal responsibilities in the respective Committee reports as follows:

- Audit Committee on page 91;
- Risk and Compliance Committee on page 96;
- Remuneration Committee on page 100;
- Nomination Committee on page 88; and
- ESG Committee on page 98.

Market Disclosure Committee

In addition to our other Committees, we also have a Market Disclosure Committee. The Board has delegated to this Committee the responsibility for overseeing the disclosure of information by the Company to meet its obligations under the Market Abuse Regulation, the Financial Conduct Authority's Listing Rules and the Disclosure and Transparency Rules. The Market Disclosure Committee is chaired by the Company Secretary and comprises the Chair of the Board, the Chair of the Audit Committee, the CEO, the CFO and the CRO. The Committee has at least three scheduled meetings a year and ad-hoc meetings when required. In 2022, the Committee met five times.

Division of responsibilities

There is a clear division of responsibilities between the Board and the GLT and the responsibilities of the Chair, CEO, and Senior Independent Director are set out in writing, reviewed and approved by the Board annually. The responsibilities of our key roles can be found on our website: https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-responsibilities.

Board decision making and section 172(1) duties

In our Strategic Report, we identify our key stakeholder groups and what they mean to us and set out our Section 172(1) Statement (pages 44 to 46). The Directors are fully aware of their section 172 duties (and receive training on their duties on an annual basis). In discharging these duties, the Directors have regard to the factors set out in section 172(1)(a)-(f) of the Companies Act 2006, as well as to other factors which they consider relevant to the decision being made (for example, the views of regulators). The Board carefully considers the Company's purpose, mission and values together with its strategic priorities as part of its process for decision making with an aim to ensuring that decisions are consistent. Below are some examples of how the Directors have had regard to the matters set out in section 172(1)(a)-(f) when discharging their duties during the year.

Principal decision	Stakeholders considered	Board's decision making process
To permanently close the retail platform	Borrowers Retail investors Institutional investors Shareholders Circlers	This year the Board made the decision to permanently close the retail platform. This was a difficult decision but was taken following very careful consideration. The retail platform had been paused for lending since April 2020 as a result, initially, of risk uncertainty and with the launch of government-backed lending schemes in which retail investors were not permitted by the government to participate. With some major changes within the industry including the closure of other peer to peer lending platforms, proposed regulatory changes and broader market dynamics the Board made the difficult decision to close the retail platform. Whilst the Board was proud that Funding Circle had been the first platform to open up SME loans to retail investors and had delivered strong returns, the decision to close the platform was in the best, long-term interests of the Company and its wider stakeholders. The consideration of stakeholders in this decision was as follows: • Re-starting or investing in the retail product would have required significant technolgy resources that were already focused on delivering the borrower roadmap and investing in new borrower products such as FlexiPay and Marketplace. • Sources of funding across non-retail lenders had been significantly diversified providing the Board with confidence that there would be sufficient liquidity to deliver the medium term-plan and beyond without retail.
EBT share purchases	Shareholders Circlers	The Board approved the Trustee of the Employee Benefit Trust ("EBT") to purchase shares so that they held no more than 5% of the issued share capital in the Company. The Board approved the proposal on the basis that it mitigated the dilutive impact on shareholders of the Company's employee share plans and was a good and efficient use of cash in light of the share price value providing an opportunity to satisfy existing employee equity awards from the EBT. Shareholders and Circlers were thus a major consideration in the rationale for making this decision.

Principal decision	Stakeholders considered	Board's decision making process
Review of ESG Committee and Risk and Compliance Committee Terms of Reference	Borrowers Investors Shareholders Circlers Government and regulators Communities	Following the successful establishment of our ESG Committee which completed its first full year cycle of meetings in 2021, further consideration and review of the division of roles between the ESG Committee and the Risk and Compliance Committee particularly on ESG related risk was discussed by both Committees and a recommendation made to the Board to update the Terms of Reference. Amendments to the Terms of Reference of the two Committees were proposed to reflect changes which highlighted more executive focus on ESG matters at the ESG Committee. The Board is committed to ensuring the impact of the Company's operations on the community and the environment is a positive one and the review and amendment to the Committees' Terms of Reference ensured each Committee's remit covered the appropriate scope of work. For more information on the work of the ESG Committee see page 98 and for the Risk and Compliance Committee see page 96.
Appointment of new GLT members	Borrowers Investors Shareholders Circlers	Greig McEwan was appointed as Chief Technology Officer, bringing a wealth of experience in innovation and delivering superior customer experience. The Board agreed that Greig would be the right person to support the next phase of growth, building scale and transforming the business. Jerome Fernandez was appointed as MD, FlexiPay, bringing financial services and fintech experience together with broad strategic and creative thinking which the Board felt made him the stand out candidate to help develop and scale FlexiPay as a core part of the medium-term plan. Steve Alloca was appointed as US MD bringing significant experience in fintech and a passion for helping SMEs win. The Board considered him to be the stand out candidate to grow the significant opportunity in the US market. All appointments were made following an in-depth search process and were considered to be in the long-term interests of the Company, taking into account customers, suppliers, shareholders and Circlers.
FlexiPay	Borrowers Investors Shareholders Circlers and Communities	The Board has closely monitored the development of our FlexiPay line of credit product which enables us to help SMEs spread costs and manage their cash flow. The Board's decisions around FlexiPay have been made with the aim of transforming Funding Circle into a multi-product lending platform for SMEs that can solve more of the funding challenges faced by our customers and meet more of their needs. The FlexiPay journey has required consideration of all our stakeholders but in particular our borrowers, as we enable them to spend and pay as well borrow longer term with our term loan product; our Circlers, who are key to the development, implementation and management of the product; and our communities which rely on the SMEs that get their funding through us to win. FlexiPay plays a vital role in fulfilling our purpose, mission and strategy and achieving the strategic pillars of our medium-term plan so the decisions around how to progress and develop this new product have been made with all our stakeholders in mind. For further detail on FlexiPay, please see the New Products and Capabilities section in the Strategic Report on page 16.
Monitoring effects of the external environment	Borrowers Investors Shareholders Circlers Government and regulators Communities	2022 has been a difficult year with market volatility and uncertainty generated by a challenging economic environment. The Board has closely monitored the effects of the external environment throughout the year through regular reports on the impact of the decisions made in regard to the direction of the business on its customers and Circlers. For example, ensuring a continued focus on the health and wellbeing of Circlers remained of critical importance to the Board as the macro-environment continues to impact the personal lives of Circlers across the Group. Supportive customer service is even more important in challenging economic times We have a dedicated business support team incorporating our complaints handling team and a specific team focused on vulnerable customers. We have also been able to serve more borrowers responsibly by introducing a shorter term lending product in the UK specifically focused on younger businesses.

Corporate governance report continued

The UK Corporate Governance Code 2018

As a premium listed company, the Company applies the principles and provisions of the UK Corporate Governance Code 2018 (the "Code") which can be found, in full, at www.frc.org.uk. As part of this Corporate Governance Report, we have laid out how the Board applies each of the principles of the Code at Funding Circle. The Board takes seriously the need for high standards of governance and aims to implement a robust corporate governance framework that works for the Company, enabling it to achieve long-term sustainable success and its wider objectives. With this in mind, the Company was compliant with all the provisions of the Code, except for Provisions 10, 11 and 19.

Provisions 10 and 19 provide that the Chair should not remain in post beyond nine years from the date of their first appointment to the Board. Andrew Learoyd has served on the Board for more than nine years from the date of his initial appointment in 2010 and therefore does not qualify, for the purposes of the Code, as independent. The Board has always been of the opinion, as mentioned in previous annual reports, that Andrew's tenure reset on IPO in 2018. Furthermore, the Directors are of the opinion that, despite his tenure on the Board, Andrew continues to provide critical stability of leadership and support which is much needed by the Company with the current macro economic environment and the delivery of the medium-term plan. The Nomination Committee has commenced the search process for Andrew's successor with a view to appointing a new Chair by 2024/25 so that the new leadership of the Board can coincide with the development of the future strategic vision. Andrew will continue as Chair until at least the end of 2024 to facilitate effective succession planning. Further detail on the Chair's *performance and tenure and succession planning can be found in the Nomination Committee Report on page 88.*

Provision 11 requires that at least half the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. For the duration of 2022, and as mentioned in our 2021 report, the Board was not compliant with this provision as Samir Desai transitioned to a non-executive role and Lisa Jacobs was appointed Chief Executive Officer. As a result of these changes, only 40% of the Board is considered by it to be independent. The Nomination Committee believes the current composition of the Board is appropriate in the current environment and necessary to support the continuity of leadership. The existing non-independent Non-Executive Directors continue to bring significant knowledge and expertise to the Board which is positive for both the Company and its stakeholders. With the CEO transition complete, the Nomination Committee has turned its focus to the composition of the Board to ensure that it complies with the Code as soon as reasonably possible. Please see the Nomination Committee Report on page 88 for additional details.

In this year's Annual Report we have explained how our purpose, values and culture are underpinned by our approach to the application of the principles of the Code. Without a robust corporate governance framework, we would be unable to fulfil our mission to help SMEs win so the inextricable link between how we do business, what our stakeholders mean to us, our values *and the importance of good, strong governance is demonstrated in the following pages as we explain how we have applied the* principles of the Code.

Application of the principles of the Code

Board leadership and company purpose

Principle A.	
A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Funding Circle's purpose is to help SMEs win which is underpinned by several values including 'Make it Happen' and 'Live the Adventure' which ask Circlers to embrace the founding entrepreneurial spirit with which Funding Circle was established. The Board embraces these values as part of its decision making process which is always in the long-term sustainable interests of the Company to generate value for shareholders and the wider society. The decision to pivot from its roots as a peer to peer lending platform is one such example of the entrepreneurial spirit of the Board.
Principle B.	
The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Information on the Company's purpose, values and strategy are set out in the Strategic Report on page 18 and 25. Funding Circle is dedicated to implementing and maintaining the highest standards of behaviour, ethics and integrity among its workforce, and to creating a culture where adherence to these standards is recognised and rewarded. All Directors on the Board, along with all Circlers, sign up to the FC Code of Conduct which outlines these standards. The Code of Conduct supports our mission and complements our values against which performance is appraised, providing guidance on the conduct expected of each individual.
Principle C.	
The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	The Board delegates oversight and management of risk to the Risk and Compliance Committee which regularly reviews the ERMF. Further information on the assessment and management of risk can be found on page 55. The Board is comfortable that sufficient resources are in place for the Company to meet its objectives and measure performance against them. As the Company grows and seeks to achieve its medium-term plan, the Board continues to support the GLT with the implementation of objectives and key results ("OKRs") across the whole business.
Principle D.	
In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Funding Circle has a wide and varied group of internal and external stakeholders which the Board keeps in mind during all discussions. More information about Funding Circle's stakeholders and our newest value, 'Obsess over the Customer' can be found on page 25. Our dedicated investor relations team supports the Board with continuous engagement with shareholders. The Directors have full regard to their duties set out under section 172 of the Companies Act 2006 when making decisions. Our Section 172 Statement can be found in the Strategic Report on page 45 and detail on Board decision making can be found on page 78.
Principle E.	
The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Workforce policies and practices are regularly reviewed by the Board and Committees and the Board is satisfied that they are consistent with the Company's values and support its long-term sustainable success. Helen Beck is our dedicated Non-Executive Director for the workforce providing a vital connection between the Board and Circlers. Further information on Helen's activities on workforce engagement can be found on page 99. As part of our 'Be Open' value, we want to ensure we foster an environment where Circlers are encouraged and feel safe to freely raise issues of concern. We have a dedicated whistleblowing process which provides channels for Circlers to communicate and report issues of concern. Our Audit Committee receives regular whistleblowing updates. Further information can be found in the Audit Committee Report on page 94.

Corporate governance report continued

Division of responsibilities	
Principle F.	
The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. **In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.**	The Board's annual effectiveness review asks members of the Board to rate the quality of the Chair's leadership and how he facilitates good challenge and debate in the boardroom. Andrew consistently receives high praise from fellow Board members and continues to demonstrate effective leadership and objective judgement, promoting a culture of openness and debate, by giving each Director an opportunity to voice their opinion. The Senior Independent Director also leads an annual review of the Chair's performance and tenure on behalf of the Board which concluded that Andrew continues to provide exceptional leadership, and is effectively steering the Board through a challenging economic environment.
Principle G.	
The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. **There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.**	The Board is comprised of two Executive Directors and seven Non-Executive Directors which provides a good balance between the Executives and Non-Executives on the Board. As mentioned earlier in this report, the composition of the Board from an independence perspective does not currently comply with the Code but the Board is confident that the current composition is appropriate for the present needs of the Company. There is a clear division of responsibilities between the executive leadership and Board leadership. The responsibilities of our key roles can be found on our website: https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-responsibilities.
Principle H.	
Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	The attendance of Board members can be found on page 76 and Committee attendance as part of the Committee reports on pages 88 to 100. The Nomination Committee will review any external appointments when considering a new Director for the Board and when a Director wishes to take on an external appointment, the Board will assess how much of that Director's time the new appointment would take before approving any appointment. The Nomination Committee reviews whether Non-Executive Directors continue to provide constructive challenge and strategic guidance, offer specialist advice and hold management to account, when reviewing the composition of the Board.
Principle I.	
The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Every member of the Board has access to the Company Secretary, who provides support and advice to the Board on all governance matters. The Company Secretary works with the Chair to set the appropriate number of Board meetings held in the year to discharge its responsibilities effectively. The Company Secretary also ensures the Board has the appropriate information presented and the resources it needs to function effectively and efficiently. Policies are reviewed annually by the Board and/or its Committees as appropriate and in the spirit of our value 'Think Smart', the team regularly reviews existing processes to ensure they are fit for purpose and support the smooth functioning of the Board.

Composition, succession and evaluation	
Principle J.	
Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. **Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.**	The Nomination Committee reviews the structure, size and composition of the Board, to maintain and develop a robust succession plan for the Board and GLT. The Nomination Committee engages with external search agencies when searching for candidates for the Board or the GLT. The Company's policy is that no individual should be discriminated against on any of the grounds of race, ethnicity, religious belief, political affiliation, gender, age, sexual orientation, gender assignment, marriage or civil partnership, pregnancy and maternity or disability. This extends to Board appointments. Funding Circle's 'Stand Together' value cements our commitment to creating and sustaining a diverse workforce and inclusive environment. More information on our approach to diversity, equity and inclusion can be found on page 25.
Principle K.	
The board and its committees should have a combination of skills, experience and knowledge. **Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.**	The Nomination Committee uses a skills and experience matrix to review the structure, size and composition of the Board and its Committees, taking into account the skills and experience, length of service and time commitment. The Nomination Committee concluded in 2022 that the composition of the Board included the right mix of skill, experience and knowledge, working effectively as a diverse team to promote the long-term success of the Company. For further information on the work of the Nomination Committee please see *page 88*.
Principle L.	
Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	The Board completes an annual evaluation which comprehensively evaluates the composition of the Board including whether the combination of skills and experience on the Board is fit for purpose. The evaluation also reviews how members work together to meet the objectives set for the Board. Details of the results of the Board evaluation can be found on page 86 Performance of each Director is evaluated as part of the succession planning process and an evaluation of the Chair is carried out by the Senior Independent Director, details of which can be found in the Nomination Committee Report on page 90.

Corporate governance report continued

Audit, risk and internal control	
Principle M.	
The board should establish formal and transparent policies and procedures to ensure independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	The Board has formal and transparent procedures in place to ensure the independence and effectiveness of the internal and external audit functions. An effectiveness review of both the internal and external audit functions was completed during the year which included an evaluation of professional integrity and independence Further details of the evaluations can be found in the Audit Committee Report on page 94 The Board delegates responsibility for ensuring the integrity of the financial and narrative statements to the Audit Committee. Further detail can be found on pages 92 to 93.
Principle N.	
The board should present a fair, balanced and understandable assessment of the company's position and prospects.	The Board has delegated to the Audit Committee responsibility for overseeing the financial and corporate reporting and internal financial controls of the Company and its subsidiaries. This includes reviewing the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable. Details of this process and the focus of the review and of the Audit Committee's role, activities and relationship with the external auditors are on pages 91 to 95 of the Report of the Audit Committee. An explanation from the Directors about their responsibility for preparing the financial statements can also be found in the Statement of Directors' Responsibilities on page 119. The Company's external auditors explain their responsibilities on pages 121 to 127
Principle O.	
The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long term strategic objectives.	The Board retains ultimate responsibility for the Group's systems of internal control and risk management but has delegated in-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations to the Risk and Compliance and Audit Committees. The Risk and Compliance Committee also monitors compliance with the ERMF. More information on the ERMF is provided on page 58. Members of the GLT are responsible for the application of the ERMF, for implementing and monitoring the operation of the systems of internal control and for providing assurance to the Board and its relevant Committees. The Internal Audit function provides independent and objective assessment on the robustness of the ERMF and the appropriateness and effectiveness of internal controls to the Board and its relevant Committees. More information on the Internal Audit function is set out in the Audit Committee Report on page 93.

Remuneration	
Principle P.	
Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	Our Remuneration Policy applies to the roles of Chair, Executive Directors and Non-Executive Directors and was designed to support strategy and promote the long-term sustainable success of the Company. The policy was approved at the 2021 AGM, and will apply for a maximum of three years. A full version of the Remuneration Policy can be found in the 2020 Annual Report and Accounts available on our website at: https://corporate.fundingcircle.com/investors/results-reports-presentations. Further information on our remuneration policies and practices can be found in the Directors' Remuneration Report on page 102 and in the 2021 Directors' Report on Remuneration on page 106 explaining how the remuneration is aligned to our values, culture and strategy.
Principle Q.	
A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	The Board has delegated its responsibility to the Remuneration Committee for setting the remuneration for the Executive Directors, the Chair and those on the GLT. No individual is present in the meeting, or segment of the meeting, that discusses their remuneration. Please see the Directors Remuneration Report on page 104 for more detail.
Principle R.	
Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Board has delegated the responsibility for recommending remuneration outcomes to the Remuneration Committee. All decisions relating to remuneration outcomes take account of Company and individual performance as well as wider circumstances such as ESG targets and initiatives. Details of how the Remuneration Committee exercised its discretion in the year can be found in the Directors' Remuneration Report on page 100.

Corporate governance report continued

Board effectiveness performance evaluation

The Board takes its continuous improvement and development very seriously and, at the end of 2022, conducted an internal effectiveness review which built on the evaluation that was carried out in 2021. The questionnaire from 2021 was refreshed to ensure the questions were relevant to 2022 and distributed to all Directors on the Board and the Company Secretary. The core topics covered by the questionnaire from 2021 were maintained so that the outcomes could be clearly tracked against the 2021 results. As the neutral party, the Company Secretarial team oversaw the process of collecting responses and analysing and presenting the outcomes. Effectiveness reviews for the Committees of the Board were also conducted and details of these evaluations are provided in the Committee reports as follows: Nomination Committee on page 90, Remuneration Committee on page 104, Audit Committee on page 95, ESG Committee on page 99 and Risk and Compliance Committee on page 97.

In compliance with the Code, the evaluation asked respondents to consider the Board's composition and diversity and how effectively members of the Board work together to achieve objectives. Overall, the questionnaire was developed to comprise eight sections. A summary of the question content covered by each section and the outcomes agreed by the Board can be found below:

Section 1 – The past 12 months

This section required respondents to provide comments regarding the Board's learning from the past 12 months and to reflect on how the Board could use the experience of the past 12 months to improve effectiveness.

Section 2 – Leadership and purpose

The questions in this section asked respondents to evaluate how the Board complies with statutory obligations in regard to section 172 of the Companies Act 2006, the effectiveness of the existing combination of Executive and Non-Executive Directors, the effectiveness of the Chair's leadership, the commitment of Board members to their roles and challenge in the boardroom.

Section 3 – Division of responsibility and composition

This section asked respondents to assess the composition of the Board in relation to whether it reflects sufficient diversity of gender, social and ethnic backgrounds and cognitive and personal strengths. The combination of skills, experience and knowledge of Board members was also evaluated.

Section 4 – Meeting process

Questions addressed the quality and timeliness of information received by the Board, the appropriateness of the length of Board meetings to discuss substantive matters and the quality of debate and the effectiveness of existing processes to inform the Board of material matters between meetings.

Section 5 – Board behaviours

Respondents were asked to evaluate boardroom behaviours which included rating the extent to which the Board embodies the purpose, vision, values and desired culture of Funding Circle and whether individual Board members arrive prepared for meetings.

Section 6 – Board development and support

This section reviewed the quality of support provided by the Company Secretary and the quality of reporting from Committees up to the Board. Non-Executive Directors were also asked to evaluate the support and training opportunities provided to them and whether this was sufficient for them to carry out their roles.

Section 7 – Risk and controls

Questions intentionally addressed the requirement of Principle O of the Code and asked Board members to evaluate the appropriateness of the Board's focus on risk and risk management, the framework of controls used by the Board to assess and manage risk and the Board's strategy for dealing with and reporting on principal and emerging risks.

Section 8 – Stakeholders and culture

This section evaluated the extent to which the Board understood the views of the Company's stakeholders, the consideration of ESG issues, workforce policies and practice and whether the Company's mission, values and strategy were aligned with the Company's culture.

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Outcomes

Ratings were good across all sections of the evaluation but there was some slight variation in scores since 2021 with some areas scoring lower and some areas improving on the score they had achieved the previous year. The evaluation outcomes were discussed at length by the Board. The Board was confident that the outcomes demonstrated that, overall, it continued to work effectively The evaluation highlighted that performance was particularly strong in the following areas: oversight of risk management, stakeholder engagement and stakeholder considerations in Board decision making, alignment of the Group's mission, values and strategy with wider Funding Circle culture and effective communication between the GLT and the Board. As part of the 2021 evaluation outcomes, the Board committed to identifying actions that it could take to improve engagement with all stakeholders and the Directors were pleased that the scores in this area had improved in 2022

Some of the areas identified for improvement which the Board has committed to address in 2023, include but are not limited to the following:

- Reducing the length of Board papers including simplification of the presentation of data to promote higher quality discussions.
- Agreeing in advance an expected agenda for the 2023 Board meetings (in addition to ad hoc meeting agenda items), which ensures a deep dive review of essential areas of our business, including technology, products, people and customers.
- Scheduling time on the agenda for the workforce engagement Non-Executive Director to provide more substantial updates on their work with Circlers. Whilst the Board's work engaging with all stakeholders has improved, it could be elevated even further by bringing the voice of Circlers more prominently into the boardroom.
- Establishing an effective way of managing the Board's annual agenda plan by scheduling shorter, more focused Board meetings for approval of half year and full year results and longer meetings for in-depth reviews of the key elements of our business model and strategic direction.
- Improve the tracking and reporting on a range of agreed KPIs and milestones by better building this into Board papers on at least a quarterly basis so that the Board has a range of metrics and a timetable of delivery for monitoring of management's delivery of the agreed medium-term plan and strategic direction.

External evaluation

The Board discussed the value of an externally facilitated evaluation at length including the recommendation in Provision 21 of the UK Corporate Governance Code 2018 and the value of an external evaluation from the perspective of stakeholders. The Board decided that it was not needed at this time as the internal evaluation was rigorous with full engagement and candid responses from Board members. Areas of improvement were identified which the Board was fully committed to working on in 2023.

Report of the Nomination Committee

Andrew Learoyd
Chair

Members and attendance

Member	Meetings	Attendance
Andrew Learoyd (Chair)	2/2	100%
Geeta Gopalan	2/2	100%
Helen Beck	2/2	100%

Introduction from the Chair

On behalf of the Board, I am pleased to present the Nomination Committee's Report for the year ended 31 December 2022.

The Committee met twice in 2022 which enabled us to cover all our duties and responsibilities. With several new appointments to the Global Leadership Team, the Committee has focused particularly on succession planning in relation to the executive leadership needs of the Company as well as succession planning for my role as Chair of the Board.

In this report, we have provided information on the activities of the Committee in 2022 as well as the Committee's work on Board composition, succession planning, diversity and evaluation. Where we have diverted from the UK Corporate Governance Code 2018, we have provided a clear explanation as to why this is the best approach for Funding Circle at this time.

The Committee's role and key responsibilities are clearly defined in its Terms of Reference which can be found on our website at corporate.fundingcircle.com/who-we-are/corporate-governance/board-committees/.

2022 Nomination Committee activity

February

- Committee Terms of Reference review
- Succession planning for the Board and Committees
- Director conflicts and NED time commitment review
- GLT succession planning
- Recommendation for Director re-election at AGM
- Culture and Diversity, Equity and Inclusion ("DEI") update

June

- Update and discussion on GLT changes proposed and agreed
- Succession planning for the Board and Committees
- Board composition including review of proxy adviser comments post-AGM

Key activities for 2023

- Drive forward the process of succession planning for the Chair of the Board and begin the process of succession planning for the recently appointed members of the Global Leadership Team
- Continue to assess and evaluate the composition of the Board including consideration of whether the tenure, independence and diversity of the Board meets the needs of the Company

Board composition

In reviewing the composition of the Board, and as part of its role in succession planning, the Committee is mindful of the importance of ensuring the Board's diversity in the broadest sense which includes taking into account merit and objective criteria as well as promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. With this in mind, the Board considers the guidance published by the Parker Review on ethnic diversity in the boardroom, the FTSE Women Leaders Review (formerly the Hampton-Alexander Review) on gender diversity in the boardroom and the requirements of the Code in relation to composition and succession of the Board. The Board is pleased that it exceeds the target of the Parker Review on ethnic diversity and applies all the Principles of the Code. Furthermore, in response to the new recommendations published by the FTSE Women Leaders Review in February 2022, the Board is delighted that it meets the recommendation to have at least one woman in the Chair or Senior Independent Director ("SID") role and/or one woman in the Chief Executive or Finance Director role with Geeta Gopalan holding our SID role and Lisa Jacobs holding the CEO role respectively. For further details relating to gender diversity on the Board and more widely at Funding Circle please see page 25 of the Strategic Report.

Group diversity statistics

DEI is a priority at Funding Circle which extends across the Company at all levels to ensure all individuals feel represented, treated fairly with equality of opportunity and included. DEI is a key component part of our ESG framework which is overseen by our ESG Committee which works closely with the Nomination Committee to support and oversee the implementation of diversity goals across the Group including at Board level. Further information on DEI can be found throughout this report including in the Strategic Report on page 25 and in the ESG Committee Report on page 99.

Diversity statistics for the Funding Circle Group can be found in the Strategic Report on page 25. The Committee received an extensive update on the Company's DEI approach and initiatives this year. The Nomination Committee recognises that there is still work to be done at a senior leadership level and discussed extensively the work being done to improve diversity at recruitment by the People team (see page 25) as well as continue to embed a female empowerment programme and emerging leaders programme to provide support to the talent coming through the Company.

Skills and experience

The Nomination Committee maintains a skills and experience matrix which helps to review the current skills and experience of the Board and identify any gaps that may need filling.

The skills and experience of the directors on the Board were evaluated as part of the annual effectiveness review and it was determined that the Board, as it currently stands, has the right mix of skills and experience amongst its Directors. The Committee recognises that, as the business continues to evolve, there may be a need for additional skills and expertise on the Board which it will review on an ongoing basis and may be met through recruitment of additional Non-Executive Directors or consultation with external advisers.

Succession planning

Board succession

There have been no changes to our Board since the Annual General Meeting in 2022 where the shareholders approved Lisa Jacobs election as Director of the Board following her appointment as Chief Executive Officer by the Board on 1 January 2022. Samir Desai was re-elected by the shareholders as a Director but transitioned to a non-independent non-executive role on 1 January 2022. Whilst the changes that took place on the Board affected the independence of the Board, the Committee has discussed in depth the composition of the Board in respect of independence and tenure and will continue to do so in 2023 (please see the Corporate Governance Report on page 80 which explains why we do not comply with Provision 11 of the Code). The Committee believes that the current composition of the Board is appropriate to provide consistency and support to the management team which saw a number of changes in 2022 and considers that the Board offers significant knowledge and expertise which is positive for the Company and its stakeholders.

Appointment

As mentioned above, there have been no further appointments to the Board since those disclosed in our 2021 Annual Report and Accounts. When it is identified that the Board requires additional Directors, the Committee leads a formal, rigorous and transparent process for appointments. The Committee is responsible for preparing the role description which includes defining the specific skills required and expected time commitment of the role. The Committee may engage the services of external advisers to facilitate the search for a candidate and always insists on a diverse pool of candidates for review. The Committee follows a clear process for meeting with short-listed candidates for both Non-Executive and Executive Director roles and decides whether a candidate may be recommended to the Board for appointment.

Induction

Director induction programmes to the Funding Circle Board are facilitated by the Company Secretarial team and overseen by the Nomination Committee. They are designed to provide Directors with a mixture of written material (through a dedicated Board portal) and face to face interaction with key Circlers. The Committee, with the support of the Company Secretary, considers the development areas and training needs of Directors that are relevant to the business, including those that arise out of the year-end evaluations.

Senior management succession

Part of the Committee's responsibilities include making recommendations to the Board for orderly succession for appointments to senior management and keeping the executive leadership needs of the Company and its Group under review, with a view to ensuring they continue to compete effectively in the marketplace. The Committee has been busy this year evolving succession planning for senior leadership roles due to a number of new appointments on the GLT including the appointment of a new Chief Technology Officer, Managing Director of FlexiPay and Managing Director of the US business.

Report of the Nomination Committee continued

Chair performance and tenure

"The Committee is conscious that there is non-compliance with Provision 19 of the Code which provides that the Chair should not remain in post beyond nine years from the date of their first appointment to the Board. An explanation as to why the Board does not currently comply with this Provision of the Code can be found in the Corporate Governance Report on page 80.

The matter of Andrew's tenure on the Board was discussed at length by the Committee and, with several executive management changes in 2022, the Committee and the Board unanimously agree that Andrew continues to provide critical stability of leadership and support. The Committee has commenced the search process for Andrew's successor with the appointment of an external adviser and plans to appoint a new Chair in the next two years. The Committee intends to have a smooth transition between Chair roles to ensure the right level of support and stability of leadership is maintained throughout."

Geeta Gopalan
Senior Independent Director

Group Board evaluation outcomes

Full details about the methodology and outcomes of the internal Board effectiveness performance evaluation can be found on page 86. The following recommendations for the Nomination Committee arose as part of the outcomes of the evaluation:

- The Nomination Committee should continue to review the composition of the Board and its succession planning in particular the balance of independent and non-independent Directors to reflect the requirements of the Code.
- The Nomination Committee should review the skills, experience and knowledge on the Board including whether it would be useful to have Directors with more technology experience or whether individuals should be invited to present to the Board from an advisory perspective on specific topics where a subject matter expert may be beneficial to the decision making process.

Nomination Committee effectiveness performance evaluation

The Company Secretarial team facilitated an effectiveness review of the Nomination Committee at the end of 2022. A comprehensive questionnaire was distributed to all the Committee members covering the following topics: constitution, composition and set-up; process including support from the Company Secretary and external consultants; work of the Committee including rigour of the process of Board appointments, succession planning for the Board and senior management, and composition of the Board and the Committee's role in setting and meeting diversity objectives All members of the Committee responded to the questionnaire and engaged with the evaluation process.

Conclusion and recommendations

Overall, scores were good across all elements of the questionnaire but particular strengths highlighted were as follows:

- The Committee is well constituted with clear Terms of Reference.
- Committee members participate fully and effectively at meetings and are well prepared.
- Papers are of high quality and circulated in plenty of time with good support from the Company Secretarial team.
- The Committee members have the right mix of experiences, competencies and professional backgrounds to carry out the Committee's work effectively.

The evaluation highlighted some areas for development and actions going forward into 2023 which included, but were not limited to, the following:

- The Committee needs to spend further time reviewing the length of service of Board members and establish a clear plan for rotating Directors off the Board.
- Committee members should spend some time in 2023 meeting with direct reports of the GLT.
- A proactive plan for the Chair's succession should be further developed and carried forward in 2023

Re-election

The position of each Board member was closely reviewed during the year as part of the consideration of succession arrangements and the Board and Committee evaluation process. The Committee is satisfied that there is a good balance of skills and experience on the Board to support the Company's future development and, accordingly, recommended to the Board that each Director stand for election at the forthcoming AGM.

Andrew Learoyd
Chair of the Nomination Committee
2 March 2023

Report of the Audit Committee

Geeta Gopalan
Chair of the Audit Committee

Members and attendance

Member	Meetings	Attendance
Geeta Gopalan (Chair)	4/4	100%
Eric Daniels	4/4	100%
Matthew King	4/4	100%

On behalf of the Board, I am pleased to present the Report of the Audit Committee for the year ended 31 December 2022.

2022 was a time of change and progression in the role of the Audit Committee, as it adjusted to increasing demands for assurance within both financial and non-financial reporting. The Committee remains satisfied that the Company has appropriate controls, systems and processes in place and continues to be managed well through an evolving macro economic environment.

The Committee met four times completing a wide scope of activity including, but not limited to the following:

Key highlights 2022

- Reviewing the integrity of the half-year and full-year financial statements, ensuring they were fair, balanced and understandable, considering significant accounting judgements, estimates and disclosures, the impact of the macro economic environment and the Group's ability to continue as a going concern, together with its viability disclosures.
- Challenging, monitoring and evaluating the Company from an internal and external audit perspective.
- Receiving regular whistleblowing updates, and continuing to review arrangements available to Circlers to raise concerns.
- Monitoring the outcome of the BEIS consultation on 'Audit and Financial Reporting Governance' reform and the implementation of any required changes to the Group's practices and reporting.
- Completing in-depth evaluations on the effectiveness of the Internal Audit team and external auditors as well as the Committee itself.
- Recommending to the Board the approval of external auditors' fees.

2023 priorities

- Continue to assess accounting judgements and estimates, particularly in relation to valuations of loans which are heavily impacted by the macro economic environment.
- Continue to review the Group's internal financial controls and internal control systems to ensure they continue to develop in line with the Group's business.
- Continue to monitor and oversee the performance and independence of both Internal and External Audit teams.

Committee composition, skills and experience

The membership of the Committee complies with Provision 24 of the Code requiring a minimum membership of two independent Non-Executive Directors not including the Chair of the Board. For more information on the roles and responsibilities of the Committee, please see our Terms of Reference at https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-committees.

All members of the Committee have relevant financial experience across banking and financial services, demonstrating competency relevant to the sector in which Funding Circle operates.

We build into every Committee agenda the opportunity for Committee members to privately discuss matters with the external and internal auditors, who attended all our meetings in 2022, without management present.

As Funding Circle Ltd ("FCL") is authorised and regulated by the Financial Conduct Authority, it has its own Audit Committee, chaired by the Chair of the FCL Board, Matthew King. The FCL Audit Committee meets at the same time as the Committee and Matthew King attends in his capacity as both member of the Committee and Chair of the FCL Audit Committee.

The following report details the Committee's activities throughout the year.

Report of the Audit Committee continued

Significant issues considered in relation to the financial statements

The Committee assessed the quality and appropriateness of, and adherence to, the Group's accounting policies and principles. It reviewed whether the accounting estimates and judgements made by management were appropriate. The significant issues and accounting judgements considered by the Committee in respect of the half year ended 30 June 2022 and year ended 31 December 2022 are set out below.

Reporting issue	Audit Committee action
Going concern and viability The period over which the Directors have determined the viability assessment is three years. While the impact of Covid-19 on the macro economic environment has receded over the year, inflationary pressures and supply chain disruption have emerged, exacerbated by the events in Ukraine and the uncertainty that these have created.	The Committee reviewed reports from management that set out its view on both the shorter-term going concern and longer-term viability of the Group. These included: • Reviewing the Group's principal risks as set out on pages 59 to 69; • Assessing and reviewing the adherence to the risk appetite set by the Risk and Compliance Committee to track the Group's capital, liquidity and exposures of its funding products; • Reviewing the Group's short and medium-term plan, its cash, capital and liquidity; • Reviewing the outcomes of stress testing after applying a severe but plausible scenario aligned to the principal risks ; and • Reviewing the risk, going concern and viability disclosures for clarity on scenarios, uncertainties, sensitivities and management actions considering macroeconomic risks in particular. Having challenged and considered the outcomes of management's assessment, the Committee recommended the Viability Statement to the Board for approval and considered that related disclosures were sufficiently clear and transparent.
Valuation of financial instruments The Group holds financial instruments at fair value on its balance sheet. These instruments are valued using valuation estimation techniques including discounting cash flow analysis and valuation models. These values are sensitive to the assumptions underpinning the cash flows leading to increased estimation uncertainty	The Committee received and reviewed the assumptions and methodologies used to value the financial instruments together with the level of sensitivity to those assumptions. The Committee also considered the views of the external auditors on the valuation approach and the assumptions, including benchmarking the assumptions with the external auditors' valuations team. The Committee considered the disclosures within the Annual Report and after due challenge concluded that the valuations were reasonable and the disclosures were appropriate.
Carrying value of investments in the Parent Company The Group evaluated the carrying values of the investments in subsidiaries held in the Parent Company for indicators of impairment. In 2020, following a strategic reset of the US business, along with an update to the Group's income and cost forecasts, the underlying projected cash flows of the US business cash-generating unit were insufficient to cover the carrying value of the Parent Company's investment in the US and it was significantly impaired. Following the restructuring, the cash flow forecasts of the US business have improved and transfer pricing arrangements have been implemented that provide additional certainty to the performance of the US business. The Parent Company's investment in the US business was assessed and a decision to partially reverse the impairment was made.	The Committee reviewed papers from management during the year which set out the key assumptions underpinning the impairment reversal assessment and the sensitivity to those assumptions, the financial projections of which were based on the medium-term plan presented to the Board as part of the 2022 budget process. The Group's external auditors provided their view of the assessment to the Committee, including their challenge of the discount rates and management's medium-term plan assumptions. After due challenge and discussion, the Committee was comfortable that there remained sufficient levels of certainty over the projected cash flows to partially reverse the impairment in relation to the US business and that the remaining carrying value of investments in the Parent Company accounts were supportable.

Reporting issue	Audit Committee action
Fair, balanced and understandable reporting and Alternative Performance Measures (APMs) The Board is required to report as to whether the contents of the 2022 Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable. The Group uses APMs in its reporting of adjusted EBITDA for the Group. These measures are used to provide insight into the underlying performance of the business. They also provide a close approximation to cash generation which is key to the business. These measures are defined within the segmental information note on page 147 and on page 190.	At the request of the Board, the Committee has assessed the information contained within the Annual Report. This assessment included discussions with management on the underlying financial processes, and confirmation from the management team of their review of the Annual Report being fair balanced and understandable. The Committee also discussed the contents of the Annual Report with the external auditors. In addition, the Committee also considered the use of various APMs and other measures used by the Group and agreed that these supported the understanding of the financial performance of the Group and facilitated a better understanding of the business. The Committee was satisfied that there was sufficient disclosures of the same with the appropriate balance and reconciliation between these and statutory measures in the accounts. Having considered all of the available information including previously published information about the business and press releases through the year the Committee has concluded that, in its judgement, the 2022 *Annual Report and Accounts, when taken as a whole, is fair, balanced* and understandable.

Internal controls

Throughout the year the Committee has monitored and reviewed the adequacy and effectiveness of the Group's internal controls, by receiving regular reports from management, Internal Audit and External Audit on matters in relation to control effectiveness, monitoring and testing, discussing and challenging the same.

The Committee receives updates on the findings of Internal Audit's investigations at each meeting.

Internal audit

The internal audit team continued to enhance its capabilities during the year and successfully completed an ambitious audit plan. Throughout the year, the plan was regularly assessed to ensure it remained focused on the Group's key risks and priorities. All proposed audit plan adjustments were reviewed, challenged and approved by the Committee Areas reviewed by the Internal Audit team during 2022 included:

- Business resilience;
- Enterprise Risk Management Framework review and maturity assessment;
- UK and US AML frameworks;
- Oversight of outsourced US loan servicer; and
- Progress of the implementation of the ESG framework.

The internal audit plan for 2023 was approved by the Committee in December 2022 and aligns to areas of highest inherent risk and continued strategic, operational and regulatory focus, including:

- Credit strategy, model build, test and ongoing validation;
- Technology function;
- FlexiPay operational scaling and control;
- Cyber security; and
- Procurement and supplier management.

Report of the Audit Committee continued

Internal Audit effectiveness review

An effectiveness review was conducted by the Committee to evaluate the performance of the Internal Audit team using the same questionnaire as the previous year so that the results could be compared and contrasted with the prior results.

The review evaluated the overall effectiveness of the Internal Audit team including: understanding of the business, governance processes, risk environment and internal control framework; quality of reporting; interaction with the Committee and other areas of the business; support of strategic priorities; and independence and objectivity.

The outcomes of the evaluation overall were very good with high scores demonstrating that the Internal Audit team remained independent, objective and effective, with sufficient resources available to provide the necessary assurance across the Group. There were a small number of areas highlighted for further enhancement that will be appropriately progressed during 2023.

External auditors*

External auditors:	PwC
Length of tenure:	8 years (appointed in 2015)
Lead audit partner:	Nick Morrison
Lead audit partner tenure:	4 years
Total audit fees payable to auditors in the year:	£804,800

* This data is correct as at 2 March 2023

External auditors effectiveness review

The annual effectiveness review comprised of a questionnaire designed to evaluate the knowledge and skills of the External Audit team; the accessibility of the lead audit partner; independence and objectivity; openness, integrity and professionalism; the quality of reporting; the audit plan; communication between external auditors and the Committee and constructive challenge

Summary recommendations were made and discussed by the Committee which included, but were not limited to, the following:

- Continuously review the audit plan throughout the year to maintain flexibility and consider emerging areas that may need focus; and
- Assess the balance between reliance on management and internal audit testing and more substantive testing by the External Audit team.

The Committee recommends that PwC be reappointed as the Company's external auditors for the financial year ending 31 December 2023. A resolution recommending the appointment of PwC as external auditors of the Company will be put to shareholders at the Company's AGM in May 2023. The external audit contract will be put out to tender at least every ten years post-IPO in accordance with the Competition and Markets Authority order and EU legislation.

The Committee confirms that the Group is in compliance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can impact on the independence assessment and the Company has, therefore, adopted a policy which requires Committee approval for non-audit services. This policy is in line with PwC's internal policies and the FRC's Revised Ethical Standard, and gives me, as Chair of the Committee, delegated authority from the Committee to approve individual non-audit services items of up to £50,000 per service

All fees paid to PwC for non-audit services have been approved (in accordance with the non-audit services policy), with a summary of all non-audit services being provided at each Committee meeting.

During the year ended 31 December 2022, PwC were engaged to provide non-audit services relating to the following.

Description	£000
Interim review of half-year results announcement	116.1
CASS reporting	132.7
ISAE 3402 controls assurance	136.3
Other	2.9
Total	**388.0**

The Audit Committee concluded that it was in the best interests of the Group to purchase these services from PwC on the basis that they were independent and were considered to be the right provider for the services required (or, in some cases, they were required to be performed by the external auditors).

PwC are prohibited from providing certain non-audit services to safeguard auditor objectivity and independence, including but not limited to internal audit work, valuations work and tax-related work.

Audit fees payable to PwC for the year ended 31 December 2022 were £804,800.

PwC have confirmed to the Committee that they remained independent during the year.

Whistleblowing

The Company takes whistleblowing very seriously and wants all employees to feel able to raise concerns when they arise. This is emphasised in the Code of Conduct for all employees which is reviewed annually. The Committee reviewed the adequacy and security of the Group's whistleblowing arrangements which included additional signposts to Circlers highlighting the importance of speaking up and speaking out and received regular whistleblowing updates providing reports to the Board where appropriate.

The whistleblowing process is well advertised to all employees, who are made aware of the importance of it. There was one potential whistleblowing incident that was investigated in 2022 and it was concluded that there were no areas of regulatory violation that required reporting.

As part of the Committee's commitment to ensuring the whistleblowing process and handling of potential incidents are of the highest standards, the Committee plans to complete a deep dive as part of its 2023 agenda.

Committee effectiveness

The Committee completed an effectiveness review for 2022 using the same questionnaire as the previous year so that the outcomes could be compared and contrasted to track progress made and identify any gaps that required further improvement.

The questionnaire addressed the composition and set-up of the Committee, the timeliness and quality of the papers, the work of the Committee and whether it sufficiently reviews and challenges the activities and findings of the internal and external auditors. The questionnaire also assessed whether the Committee sufficiently safeguarded auditor independence and objectivity.

Overall, the results of the evaluation were positive with the Committee agreeing that the composition and set-up of the Committee and meetings were satisfactory and there was good support from the Company Secretarial team. The Committee agreed that, amongst other things, it would give further focus to resilience and contingency planning in 2023.

Geeta Gopalan
Chair of the Audit Committee
2 March 2023

Report of the Risk and Compliance Committee

Eric Daniels
Chair of the Risk and Compliance Committee

Members and attendance

Member	Meetings	Attendance
Eric Daniels (Chair)	3/3	100%
Geeta Gopalan	3/3	100%
Helen Beck (appointed 8 March 2022)	2/2	100%
Hendrik Nelis (resigned 8 March 2022)	1/1	100%

On behalf of the Board, I am pleased to present the Report of the Risk and Compliance Committee for the year ended 31 December 2022.

The Committee met three times in 2022 to carry out its role of monitoring and reviewing risk for the Group including the nature and extent of principal and emerging risks against an uncertain macro environment. In addition to formal meetings, the Committee also received regular reports and updates on overall credit performance and FlexiPay credit performance. For in-depth information relating to the Group's approach to risk and identification of principal and emerging risks for 2022, please refer to the Strategic Report on pages 55 to 69.

The unpredictability of the macro environment in 2022, which will continue into 2023, posed many challenges for us. The Committee's work was varied and included, but was not limited to, the following:

- Overseeing a more prudent approach to originations, particularly in the UK, and agreeing to changes in credit strategy to enable fast and effective change in an increasingly volatile environment.
- Receiving regular updates and closely monitoring the external environment to look ahead at indicators of major change and assessing risk in relation to inflation and rising interest rates, including the impact of inflation on SMEs.
- Undertaking a review and update to the ERMF to reflect a change in the way ESG risk is monitored which included a review of the Terms of Reference of the Committee to ensure that the roles of this Committee and the ESG Committee are clear in relation to ESG risk.
- Applying scrutiny to information security and technology risk, ensuring vulnerabilities were flagged and prioritised accordingly.
- Focusing on people risk with a robust discussion on the proactive steps being taken to mitigate attrition. This included recognising talent that was critical to Funding Circle's success and supporting Circlers taking into account inflation and the higher cost of living.
- Receiving an update from the Collections and Recoveries team in November, which took into account the current macro environment and what it meant to our borrowers and what we were doing for vulnerable borrowers
- Monitoring the risks associated with FlexiPay as a new product.
- Reviewing the controls in place to mitigate borrower fraud risk, following press coverage about the epidemic of Covid-19 loan fraud in both the UK and US.
- Receiving a report on the implementation of the controls library pilot which completed in October 2022. The pilot provided new information on the Company's control environment through the improved and structured data which was available for is controls.
- Approving amendments to the Group risk appetite which included the treatment of credit risk so that it would work more effectively for guaranteed loans and core products.

All of the Committee's work this year has been against an economic backdrop that could, if not monitored carefully, impact the execution of our strategy so our work has been extremely focused to enable us to support the Board and ensure commitment to the strategic plan whilst remaining mindful of increased need for agility and precision when identifying, managing and mitigating risks that affect our business. In particular, I am happy with the strong credit performance of both the UK and US loan books throughout 2022, notwithstanding the challenging macro, our proven ability to deploy fast and effective change to our credit strategy to navigate a volatile environment and the attention to our borrowers demonstrated by our collections team.

In summary, I have been pleased with the continued development of the Group's risk management capabilities and overall controls and remain confident and optimistic about the Group's ability to successfully navigate a continued uncertain and volatile economic environment in 2023.

Key activities for 2023

- The Committee will continue to review the Company's key and emerging risks, paying close attention to the macro environment in a more volatile environment than originally anticipated for 2023, with continued focus on inflation, interest rates and geopolitical tension.
- The Committee will continue to review the ERMF, and ensure it remains appropriate and effective for all stages of development of the Group's business.
- The Committee will continue to closely monitor operational risks, particularly in relation to technology, data and information security.
- The Committee will continue to keep a close monitoring of the funding outlook of the business, in particular for the US platform, with attention to the cost and the diversity of the funding sources.
- As the Group continues to embrace new products and increased automation, the Committee will monitor the associated risks as they scale as well as the execution risk as the business moves from a focus on one product to a number of different products.
- People and talent management will continue to be closely monitored by the Committee.

Role of the Committee

For information regarding the Committee's role and key responsibilities, please see the Terms of Reference on our website at corporate.fundingcircle.com/who-we-are/corporate-governance/board-committees/.

Committee effectiveness evaluation

An effectiveness review of the Committee's performance was completed at the end of the year. The review comprised an extensive questionnaire that evaluated the Committee's overall performance, composition and set-up and, importantly, the work of the Committee including its role in reviewing and challenging the Group's control, risk management and compliance systems and appetite for risk. The questionnaire was completed by members of the Committee and the CRO.

Overall the scores were positive. The section of the questionnaire which addressed process of the Committee and included evaluation of the timeliness and quality of papers prompted a recommendation for the Committee to provide continual feedback to management on how the quality and length of papers could be improved. The evaluation also identified the need for the Committee to ensure discussions and agenda items were able to flex and adapt to the evolving environment and for the Committee to continue to review and challenge the Company's control, risk management and compliance systems to support the Company in achieving its long-term strategic objectives. Additional agenda items of note for the next 12 months (that would require more in-depth monitoring and review) included funding risks and the impact of the new FCA Consumer Duty.

In addition to the Committee's own effectiveness review, the Board also evaluated its oversight of risk as part of its effectiveness review. All members of the Board were satisfied that the Board has sufficient focus on risk and risk management as it pertains to the Group's strategy and that a framework of prudent and effective controls was in place which enabled risk to be assessed and managed appropriately. For further information on the outcomes of the annual Board evaluation please see page 87.

Eric Daniels
Chair of the Risk and Compliance Committee
2 March 2023

Report of the ESG Committee

Andrew Learoyd
Chair of the ESG Committee

Members and attendance

Member	Meetings	Attendance
Andrew Learoyd (Chair)	3/3	100%
Matthew King	3/3	100%
Neil Rimer	3/3	100%
Helen Beck	3/3	100%

On behalf of the Board, I am pleased to present the ESG Committee's Report for the year ended 31 December 2022.

2021 was largely a year of scoping, imagining and planning by the ESG Committee and the past 12 months have seen initial implementation of the plan that emerged from 2021. Across all three key pillars – Environmental, Social and Diversity Equity & Inclusion (DEI) – we have made significant progress in setting our objectives, simplifying the chosen methods to achieve them and initiating the steps on that path. More detail on our progress in each of these areas is outlined below.

In terms of its role, the Committee has focused on clarifying responsibility for the governance of ESG related risk to ensure identification and risk monitoring is properly managed.

We also received our first internal audit report in 2022 which evaluated the progress made on the implementation of the ESG framework. This was helpful in highlighting our strengths and areas that require further development. Notably, improvements were observed in relation to governance, reporting and risk integration.

The Committee met three times this year and, to ensure momentum continues with ESG matters, the Committee has agreed to maintain the same cadence of meetings in 2023. The Committee will also receive quarterly reports to more closely track progress of ESG activities across the year.

For more detailed information on the Group's ESG framework, TCFD disclosures and environmental impact please see the Environment, social and governance section of our Strategic Report on page 28.

Key activities for 2023

- Achieve carbon neutrality recertification for 2022 and continue to progress environmental strategy towards net zero ambition by 2050 and stretch target of operational net zero by 2030.
- Continue to incorporate and embed ESG risk and opportunities into the Group's leadership team work

Environmental

In 2022 the Committee continued to oversee the progress made on the Group's environmental strategy in partnership with an external climate change consultant and spent considerable time focusing on reporting in line with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations. The Group's TCFD Report can be found in the Environment, social and governance section on page 30

I am pleased that we have continued to advance our environmental strategy to achieve carbon neutrality certification ahead of schedule in the first part of the year and completed our carbon foot printing verification for Scope 1 and 2 and part of Scope 3 emissions for business travel and waste generated in operations.

We continue to drive forward our aim to reduce our carbon emissions year on year and are focusing on recertification to achieve carbon neutrality for 2022 in early 2023.

It's important to the Committee that the Group has science-based targets to achieve our long-term goal of being net zero by 2050 and work continues in this regard. Progress in this area was made through an initial exercise to estimate the financed emissions from our lending activities.

Social

As reported in our 2021 report, the Committee allocated budget and resource to further develop the approach to social impact as it was identified as an area requiring additional focus and strategy. In 2022, social impact and community engagement were driven separately in the UK and US with approaches that met the needs of each local community whilst also leveraging the Company's USP on social inclusion to support entrepreneurship. In 2022, the Company launched a partnership with Hatch (an organisation supporting under represented entrepreneurs) in the UK and through our Circler group, FC Impact, a number of Circler led volunteering opportunities were launched, more details of which are set out on page 27.

The team has also engaged with our borrowers with social impact related questions in a recent SME survey to understand areas where Funding Circle could add more value This will help to inform where we should focus our efforts in 2023.

Diversity, equity and inclusion ("DEI")

In our 2021 report, we explained what DEI means at Funding Circle and set out to obtain better data to measure our diversity. In 2022 we were pleased to see great progress achieved towards our objectives on DEI as demonstrated by the very high DEI scores in our Circler engagement survey (see page 25 for more detail).

The governance of DEI has included maximising the role of Circler-led groups and integrating DEI-focused commitments into the FC Code of Conduct and existing policies.

The Committee took a deeper dive into diversity at senior levels of the Company and continues to challenge senior management to identify where improvements can be made to improve it at these levels. For further information on Funding Circle's approach to DEI, please see our People section on page 25.

Governance

The Committee has made great progress on governance using its delegated authority from the Board to provide leadership on the ethical conduct of the business and approach to good corporate behaviour in connection with ESG-related matters.

Work in this area was focused on resolving the governance of ESG related risk in collaboration with the Risk and Compliance Committee to ensure the responsibility for risk identification and monitoring fell into the remit of the Risk and Compliance Committee while the ESG Committee held responsibility for ESG strategy across the Group. For further information relating to the duties and responsibilities of each Committee, a copy of the Terms of Reference can be found on our website here: https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-committees/

In addition to the work on the Committee's Terms of Reference, the Committee changed the roles of individual Committee members who had originally been allocated an area of focus to support the early set up of the Committee and its work. With significant progress made on social and governance, the Committee decided that Matthew King would retain his focus on environmental strategy and Helen Beck would retain her role as Workforce Engagement Director.

To ensure knowledge and training was up to date, and in particular the awareness of TCFD as it relates to obligations on climate change related disclosures, the Committee introduced ESG specific training modules which will be completed by Directors in early 2023.

Helen Beck continued with her role as Workforce Engagement Non-Executive Director to fulfil the requirements of Provision 5 of the UK Corporate Governance Code and engaged with Circlers across the Group on a number of projects throughout the year including informal lunch and coffee events. These provided an open forum to gain Circler insight on strategy, organisational design around new products, the impact of the economic environment and other issues of importance to Circlers, which Helen then fed back to the Board. Helen has been impressed with the passion and openness of the Circlers she has spent time with and the value that their insight has brought to Board discussions.

ESG Committee effectiveness performance evaluation

The Company Secretarial team facilitated an effectiveness review at the end of 2022 which evaluated the constitution, composition and set up of the Committee and its work including progress made on the Group's ESG objectives, ensuring the ESG strategy and framework remained fit for purpose, measuring the impact of the Group's strategy on employees, and identification and execution of ESG opportunities. Scores were generally high with a number of strengths highlighted and some areas for development identified which are due to be carried forward as actions into 2023.

Andrew Learoyd
Chair of the ESG Committee
2 March 2023

Directors' remuneration report

Helen Beck
Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022. I want to thank Geeta Gopalan, who stepped down from the Remuneration Committee on 8 March 2022, for her service on the Committee. I'd also like to thank the other Committee members, Andrew Learoyd and Matthew King (who joined on 8 March 2022, replacing Geeta), and the Circlers who have supported the Committee this year.

Review of 2022 and Executive Directors' Remuneration

As Andrew refers to in the Chair's Statement on page 6, 2022 was a difficult year financially with economic and political uncertainty, particularly in the UK, impacting SMEs and the financial performance of Funding Circle in ways unanticipated when we set stretching targets in December 2021 for the 2022 incentives. Despite the challenging economic environment, the team has achieved positive financial results in line with market expectations and made good progress against our three strategic pillars. In her first year as CEO, Lisa Jacobs has laid the foundations to achieve the medium-term plan and paved the way for future growth by diversifying our product range.

For the annual bonus, the 2022 AEBITDA outcome was just below target but the Total Income measure was missed as a result of the tougher market conditions However, performance against the strategic/non-financial elements of the annual bonus was significantly above target. In addition to transitioning the business away from government-backed funding, the team made good progress towards achieving its medium-term plan, expanding FlexiPay to new customer segments and beta-launching FlexiPay card in the UK as well as introducing a shorter-term lending product and expanding the Marketplace offering to say yes to more businesses. In the US, the team launched Lending as a Service and a super prime product for more established businesses. Loan returns have remained robust and attractive, demonstrating Funding Circle's responsible lending and a prudent approach to credit risk. Employee engagement is at its highest ever level of 73% for the second year in a row, with 87% of Circlers recommending Funding Circle as a place to work.

In this overall performance context, the Committee determined bonus payouts equal to 45.0% of maximum for the CEO and for the CFO. The Committee did not adjust the 2022 financial targets for the annual bonus nor apply any upwards discretion 40% of the bonus payout will be deferred into shares for three years, in keeping with our Remuneration Policy.

The Committee did not adjust the 2020 Long-Term Incentive Plan "LTIP" vesting for Oliver White to reflect the challenging economic environment nor apply any upwards discretion No nil-cost options vested under the LTIP as neither EPS nor Fee Income targets (set in a very different environment in 2020) were achieved.

The Committee approved a one-off allowance for Oliver White, who took on additional responsibilities as interim US Managing Director for a period of just over three months. The allowance is in line with our Policy, practice throughout the Group and market practice

Executive Director remuneration arrangements for 2023

The Committee has determined a salary increase for Lisa Jacobs of 3.5% taking her salary from £400,000 to £414,000. In approving the increase, which is below the Circler salary review pot of 5% for 2023, the Committee took into account several factors, including internal relativities and external comparative data (her salary being lower quartile vs. the FTSE SmallCap). The Committee will continue to keep Lisa's salary under review and may increase it (at a rate higher than the Circler average) if it considers this to be justified and aligned with Funding Circle's remuneration principles, recognising the need to retain and incentivise a highly-talented individual in a competitive market.

Oliver White's salary was set at £400,000 when he joined in 2020 and has been unchanged since then. For 2023, the Committee has determined that his salary will increase by 2.5%, which the Committee considered appropriate for a high-calibre CFO with the experience required for the scale and complexity of the business.

The annual bonus measures will remain a combination of financial and non-financial, but given the strategic importance of FlexiPay, in line with our policy, will move to financial measures being 60% and strategic/non-financial being 40%. We feel this provides a more appropriate alignment with our medium-term plan

In accordance with our Policy the same number of Restricted Shares will be granted to the Executive Directors in 2023 as was granted in 2021 and 2022, being 358,177 and

269,306 Restricted Shares for the CEO and CFO respectively. As shown in our "Illustration of the application of Remuneration Policy in 2023" charts, the grant date face value of 2023 Restricted Share awards will be c.25% lower compared to 2022 Restricted Share awards.

Vesting of the Restricted Shares will continue be subject to a financial underpin based on Total Income as well as qualitative underpins. The financial underpin has been set such that annual Total Income must be on average £130 million over the period of three years 2023 to 2025. The Committee retains the discretion to make any adjustments to vesting it deems necessary to maintain an appropriate pay/performance relationship as with the 2021 and 2022 grants.

Remuneration arrangements for Circlers

During 2022, we continued to focus on the Circler reward proposition. In March, we increased the budget available for salary increases in anticipation of continued rising inflation and we also did a comprehensive benefits review, further details of which are set out in our people section on page 24. I wish to thank all of our Circlers for once again delivering in difficult and trying times. The Group annual bonus for 2022 is being awarded in full to eligible Circlers, with payment being based on AEBITDA performance. Our People section at pages 24 to 27 sets out how Funding Circle has responded to the changing employment environment following the pandemic.

To recognise junior Circlers for their continued effort during 2022 we paid a bonus of up to £1,000 in December 2022. In addition, we increased the salary of any Circlers whose salary was below the updated "Real Living Wage" in September 2022.

Remuneration Policy review in 2023

As 2023 is the last year of the Remuneration Policy approved at the 2021 AGM, the Committee is undertaking a review and aims to ensure that the new Policy, which will be put to shareholders at the 2024 AGM, supports both the short- and long-term objectives of the business and aligns with its Board-approved strategy.

The Committee's view is that the current Policy has not given us sufficient flexibility to reward and incentivise our Executive Directors in line with their performance, particularly since we no longer have a founder CEO.

We will aim for the new Remuneration Policy to include greater flexibility to allow the Committee to appropriately reward the Executive Directors, as well as aligning with shareholder interests. We will take into account market practice and best practice, whilst making sure that the Policy is fit-for-purpose for Funding Circle.

As in the previous Remuneration Policy review, we will be reaching out to our shareholders to consult on our proposals in the second half of the year. The Committee is also conducting a review of its advisers to ensure we continue to receive appropriate advice and a robust challenge where warranted. The adviser review will be concluded before we start our Policy review.

Conclusion

On behalf of the Remuneration Committee, I would like to thank our shareholders for their support in 2022. We were delighted with the support received from shareholders for our Annual Report on Remuneration at the 2022 AGM. We hope to continue to receive your support at our 2023 AGM, where I will be available to respond to any questions on this report or in relation to any of the Committee's activities.

Helen Beck
Chair of the Remuneration Committee
2 March 2023

Directors' remuneration report continued

Remuneration Policy

A full version of the Remuneration Policy can be found in the 2020 Annual Report and Accounts available on our website at: https://corporate.fundingcircle.com/investors/results-reports-presentations. The Remuneration Policy was approved with 98% support by a binding shareholder vote at the 2021 AGM, and will apply for a maximum of three years. Whilst the full Policy is not reproduced in this report, the Committee believes that it is helpful to shareholders to publish an updated illustration of the potential value of the proposed application of the Remuneration Policy in 2023 to the Executive Directors in different performance scenarios. These charts are provided below:

Illustrations of the application of the Remuneration Policy in 2023

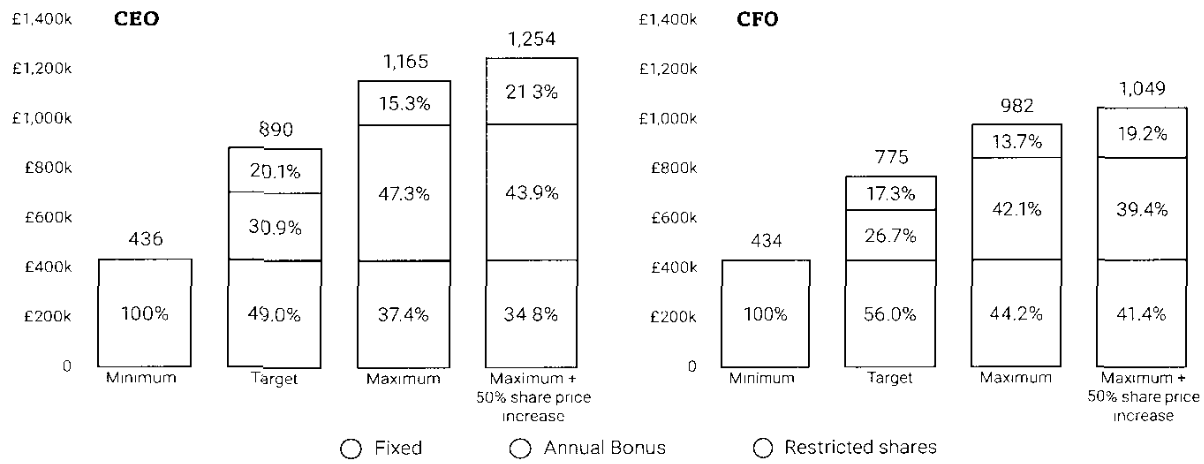


Illustration assumptions

Element of pay	Minimum	Target	Maximum	Maximum + 50% share price appreciation
Fixed remuneration: • Base salary – effective 1 March 2023 • Benefits – in line with the value of 2022 benefits disclosed in the single figure table • Pension – 5% of salary				
Annual bonus	No payout	50% of maximum (target payout)	Maximum payout	
Restricted shares	No vesting. Assumes the underpin is not met	Grant value vests: 358,177 shares for the CEO and 269,306 for the CFO Assumes share price of £0.498, which was the three-month average share price to 31 December 2022		Grant value multiplied by 1.5

Remuneration Policy for Circlers

The Committee receives regular updates on overall pay and conditions in the Group, and pay and employment conditions generally in the Group are taken into account when setting Executive Directors' remuneration.

The approach to annual salary reviews is consistent across the Group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies.

Nearly 60% of Circlers are eligible for either the annual bonus plan or other bonus arrangements. Opportunities vary by organisational level and function. From inception, a key element of the remuneration philosophy has been to support share ownership across the business. This has historically been achieved through making equity incentives available to Circlers to encourage them to behave as owners – taking decisions that balance long-term value creation with achieving shorter-term strategic priorities. The Remuneration Policy for Circlers is reviewed annually ensure it's aligned with our strategy, valued by Circlers, and provides value for money. Following feedback from Circlers, in 2023 we are removing the free shares that are granted to all Circlers and replacing them with a cash bonus for junior Circlers, and enhancing the matching ratio of our Share Incentive Plan for UK Circlers from 1:1 to 2:1.

The key elements to the incentive arrangements in 2023 are:

- The Global Leadership Team and other senior management and senior specialist roles participate in a discretionary share-based LTIP with grant size increasing with seniority. The grants for Circlers in leadership roles include a multiplier for achieving significant share price growth.
- The leadership team, managers and specialists participate in an annual bonus plan (and the majority of Circlers participate in either the annual bonus plan or another form of bonus). The Committee agreed a change to the Group annual bonus plan for 2023 to include an element of Circlers' individual performance as well as Funding Circle financial performance to align with our strategic pillar of High Performing Teams Executing Brilliantly.
- All UK-based Circlers are eligible to participate in our Share Incentive Plan where, for every "Partnership share" that is purchased, two "Matching shares" are awarded.
- Junior Circlers are eligible to receive a cash bonus each year, the size of which depends on their length of service and affordability.

Equity awarded to Circlers, including the existing Global Leadership Team (other than the Executive Directors), is subject to continued employment for the two years following the grant date but is not otherwise normally subject to performance conditions. Our workforce engagement Director (Helen Beck) frequently holds engagement sessions with Circlers. A range of topics are discussed including Executive remuneration. Feedback from workforce engagement sessions in 2020 was taken into account when developing our Policy.

Alignment between Executive and Circlers' remuneration

The Executive Directors' Policy was designed to align Circler and Executive pay. We introduced an annual bonus plan for the Global Leadership Team, managers and specialists in 2020 and then introduced an annual bonus for Executive Directors in 2021. The introduction of Restricted Share awards for the Executive Directors also matches the introduction of equity schemes for Circlers which are based on continued employment only. The main differences between how Executive Directors and Circlers are remunerated are the longer time periods (vesting, holding and deferral), tougher performance criteria, and there being no share price multiplier on the Restricted Share awards made to Executive Directors.

Annual report on remuneration

Annual report on remuneration

This part of the report sets out how the Remuneration Policy has been applied in 2022 and how the Committee intends to apply the Remuneration Policy in 2023. This part of the report will be subject to an advisory shareholder vote at the 2023 AGM.

Role of the Committee

The Committee's primary role is to determine the remuneration of the Directors and Global Leadership Team and the Remuneration Policy for the Executive Directors, as well as monitoring and reviewing its ongoing appropriateness and relevance. In doing so, the Committee ensures that the Remuneration Policy is aligned with the Company's key remuneration principles as well as taking into account the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture set out in the 2018 UK Corporate Governance Code. How our remuneration is aligned with the principles of the Code is summarised in our 2021 Directors' Report on Remuneration on page 106.

The key responsibilities of the Committee are summarised on page 85 and further details on the Committee's roles and responsibilities can be found in our Terms of Reference on our corporate website.

Committee composition

Geeta Gopalan stepped down from the Committee on 8 March 2022 and was replaced by Matthew King who joined on 8 March 2022 None of the members who have served on the Committee during the year had any personal interest in the matters decided by the Committee and they are all considered to be independent by the Company. The Company Secretary acted as Secretary to the Committee.

Committee members	Number of meetings attended
Helen Beck, Chair	4/4
Andrew Learoyd	4/4
Matthew King (appointed on 8 March 2022)	2/2
Geeta Gopalan, former member	2/2

The Executive Directors, Chief People Officer, other members of the senior management team and our external remuneration consultants, Deloitte LLP, were invited to Committee meetings where it was deemed appropriate No individuals were involved in decisions relating to their own remuneration.

2022 Committee workstreams

- determined the payout of the Executive Directors' 2021 annual bonus;
- approved the payout of the 2021 annual bonus for Circlers;
- approved the design of the 2022 annual bonus for Circlers and the equity plans;
- set the 2022 annual bonus targets for Executive Directors;
- set the 2022 Restricted Share Plan underpin and approved the grants for Executive Directors; and
- approved reward decisions relating to members of the Global Leadership Team and reviewed Circler compensation.

2023 Committee priorities

- approve the remuneration arrangements for the Global Leadership Team, including their equity grants;
- approve the design of the 2023 annual bonus for Circlers and the equity plans;
- set the 2023 annual bonus targets, ensuring they align with Funding Circle's strategy as well as its ESG priorities;
- set the 2023 Restricted Share Plan underpin and approve the grants for Executive Directors;
- conduct a comprehensive review of the Remuneration Policy, which will include consultation with our shareholders, in preparation for its renewal at the 2024 AGM; and
- continue to monitor remuneration practices across the Company as a whole, keeping abreast of current and evolving market practice.

Committee effectiveness

As noted on page 86, the Committee undertook an effectiveness review during 2022, whereby each Committee member and, by invitation, the Chief People Officer, completed a tailored questionnaire. The questionnaire covered topics such as the quality of the remuneration support provided to the Committee and the appropriateness of the remuneration policies and practices implemented in 2022 The positive scores and comments demonstrated that the Committee is working well. The Committee agreed to implement the recommendations including a review of advisers to ensure the Committee receives appropriate advice and challenge and a review of below-Board bonuses not forming part of the Group annual bonus

External advisers

The Committee is satisfied that the advice it has received from its appointed adviser Deloitte LLP as remuneration consultants is independent, and that the engagement partner and team that have provided remuneration advice do not have connections with the Company that might impair their independence. Deloitte was appointed by the Committee in 2019. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration matters in the UK.

The fee paid to Deloitte LLP in 2022 in relation to advice provided to the Committee was £18,650 Deloitte also provided advice to the Group during 2022 in relation to risk advisory, share plan advisory and corporate tax advisory services.

Letters of appointment and service contracts

Director	Commencement date of current term	Expiry of current term	Notice period From Company	Notice period From Director
Executive Directors				
Lisa Jacobs	**1 January 2022**	**n/a**	**Twelve months**	**Twelve months**
Oliver White	**15 June 2020**	**n/a**	**Six months**	**Six months**
Non-Executive Directors				
Andrew Learoyd	**10 September 2021**	**10 September 2024**	**One month**	**One month**
Samir Desai	**1 January 2022**	**1 January 2025**	**One month**	**One month**
Eric Daniels	**18 September 2021**	**18 September 2024**	**One month**	**One month**
Geeta Gopalan	**1 November 2021**	**1 November 2024**	**One month**	**One month**
Hendrik Nelis	**5 September 2021**	**5 September 2024**	**One month**	**One month**
Neil Rimer	**5 September 2021**	**5 September 2024**	**One month**	**One month**
Matthew King	**19 May 2021**	**19 May 2024**	**One month**	**One month**
Helen Beck	**1 June 2021**	**1 June 2024**	**One month**	**One month**

The Executive Directors' service contracts are on a rolling basis. All Non-Executive Directors have letters of appointment with the Company. The appointments of each of the Non-Executive Directors are for an initial term of three years, and have been extended for those Non-Executive Directors whose original term has since expired The appointment of each Non-Executive Director is subject to annual re-election at the AGM.

Shareholder voting

The Committee's resolutions at the Company's 2021 AGM (in respect of the Remuneration Policy) and the 2022 AGM (in respect of the Annual Report on Remuneration) received the following votes from shareholders:

	Annual Report on Remuneration (2022 AGM)		Remuneration Policy (2021 AGM)	
Number of votes				
Votes cast in favour	242,440,714	99.96%	226,078,928	98.17%
Votes cast against	89,361	0.04%	3,229,853	1.40%
Votes withheld	9,147	0.00%	977,804	0.43%
Total votes cast (including withheld)	242,539,222	100.00%	230,286,585	100.00%

Annual report on remuneration continued

Single total figure of remuneration (audited)

The following tables set out the aggregate emoluments earned by the Directors in the year ended 31 December 2022 and 2021 respectively.

2022	Salary and fees £000	Taxable benefits[1] £000	Bonus £000	Pensions[2] £000	Long-term incentives[3] £000	Total £000	Other	Total fixed £000	Total variable £000
Executive Directors									
Lisa Jacobs	**400**	**2**	**239**	**20**	–	**661**	–	**422**	**239**
Oliver White[4]	**400**	**3**	**180**	**20**	–	**603**	**28[4]**	**451**	**180**
Non-Executive Directors									
Andrew Learoyd	**206**	–	–	–	–	**206**	–	**206**	–
Eric Daniels	**69**	**3**	–	–	–	**72**	–	**72**	–
Geeta Gopalan	**79**	–	–	–	–	**79**	–	**79**	–
Helen Beck	**69**	–	–	–	–	**69**	–	**69**	–
Matthew King	**67**	–	–	–	–	**67**	–	**67**	–
Samir Desai (appointed 1 January 2022)	**55**					**55**		**55**	
Hendrik Nelis[6]	–	–	–	–	–	–	–	–	–
Neil Rimer[6]	–	–	–	–	–	–	–	–	–
2021									
Executive Directors									
Samir Desai[5]	210	2	417	–	–	629	–	212	417
Oliver White	400	5	319	20	–	744	–	425	319
Non-Executive Directors									
Andrew Learoyd	200	–	–	–	–	200	–	200	–
Ed Wray (stepped down 19 May 2021)	23	–	–	–	–	23	–	23	–
Eric Daniels	65	3	–	–	–	68	–	68	–
Bob Steel (stepped down 19 May 2021)	33	–	–	–	–	33	–	33	–
Cath Keers (stepped down 19 May 2021)	33	–	–	–	–	33	–	33	–
Geeta Gopalan	71	–	–	–	–	71	–	71	–
Helen Beck (appointed 1 June 2021)	38	–	–	–	–	38	–	38	–
Matthew King (appointed 19 May 2021)	30	–	–	–	–	30	–	30	–
Hendrik Nelis[6]	–	–	–	–	–	–	–	–	–
Neil Rimer[6]	–	–	–	–	–	–	–	–	–

1 Taxable benefits for Executive Directors principally include private medical cover and life assurance cover. Taxable benefits for Non-Executive Directors relate to reimbursement of travel to the workplace. The Company ensures that the Non-Executive Directors are kept whole by settling the expense and any related tax. The figures shown include the cost of the taxable benefit plus the related tax charge.

2 Executive Directors were eligible for a 5% of base salary pension contribution. Samir Desai, in his previous role as CEO, opted not to take up his right to the pension contribution.

3 No nil-cost options vested under the 2020 LTIP as neither EPS nor Fee Income targets were achieved. No long-term incentives vested in respect of 2021.

4 Oliver White took on the interim US Managing Director role from 21 September 2022 in addition to his usual responsibilities. Funding Circle covered the costs of working in the US such as accommodation, flights and car hire, however, he was paid an additional payment of £27,500 to compensate him for the material additional work and responsibilities undertaken. This additional allowance is in keeping with our shareholder-approved Remuneration Policy, under which "The Committee may determine that Executive Directors should receive additional reasonable benefits if appropriate, taking into account typical market practice and practice throughout the Group". A one-off payment (which is not pensionable nor bonusable) was preferred to an uplift in salary due to the multiplicative impact of salary on total remuneration and the interim nature of the appointment.

5 As disclosed in the 2020 Directors' Remuneration Report, Samir Desai was awarded a salary increase from £210,000 to £400,000 effective from 1 January 2021, however, he waived the increase for 2021. His annual bonus opportunity and Restricted Share award opportunity were determined based on the £400,000 salary, which is referred to in last year's Directors' Remuneration Report as his reference salary.

6 Hendrik Nelis and Neil Rimer, who are not independent Non-Executive Directors, have waived their entitlement to a fee.

2022 annual bonus

2022 was the second year that we have operated an annual bonus for the Executive Directors. The maximum opportunities were 133% of salary for the CEO and 100% of salary for the CFO. Two thirds of the annual bonus was based on financial measures with the remainder based on strategic/non-financial measures. The measures were set by the Committee and are in line with Funding Circle's strategy. Stretching financial targets were set by the Committee at the start of the year, taking into account our 2022 budget and broker forecasts at the time. An on-target bonus could be earned for achieving 2022 budget performance.

Structure of the 2022 bonus

Element (weighting %)	Threshold (0% payout)	Target (50% payout)	Maximum (100% payout)	Outcome	Implied payout of element CEO	Implied payout of element CFO
AEBITDA (one third)	£0m	£8.8m	£17.6m	£6.8m	38.6%	
Total Income (one third)	£152.8m	£172.8m	£192.8m	£148.7m	0%	
Strategic/non-financial measures (one third)		See below			96.3%	96.3%
				Total (% of maximum)	45.0%	45.0%
				Total (% of salary)	59.8%	45.0%
				Final outcome (£k)	239.2	179.9

Strategic/non-financial measures

Category	Details on objectives	Performance assessment
Stakeholders – Doing the right thing for our customers and shareholders	**Customers** • Our Net Promoter Score remained strong in 2022 at 77. • Over 2022, Funding Circle dealt with customer complaints in line with expectations. **Growth** • FlexiPay was launched to new and existing borrowers in the UK with more than £60m spent across more than 17,000 transactions Beta testing of our FlexiPay card was launched to a small number of existing borrowers. • LaaS was launched with two partners in the US. • Super prime loans were introduced in the US to serve lower risk customers with better rates, which resulted in originations of $110m. • Near prime short-term loans were introduced in the UK which enabled Funding Circle to support younger businesses for the first time, aligning with our strategic pillar to "say yes to more businesses". **Shareholders** • Funding Circle laid the foundations for improving its shareholder diversification through the appointment of an experienced Director of Investor Relations and evolving its approach to prospective shareholder engagement. Of particular note in 2022, Funding Circle received new equity research coverage from two further brokers.	

Annual report on remuneration continued

Category	Details on objectives	Performance assessment
Circlers – Building an incredible place to work and learn	**Employees** • Employee engagement remained at an all-time high of 73%, exceeding our target of 70%, in addition to 87% of Circlers recommending Funding Circle as a great place to work, exceeding our target by 7%. **Gender and Diversity** • Continued progress was made in 2022 across diversity, equity and inclusion at Funding Circle. The highest ever inclusion scores were recorded at the Company with 92% of Circlers stating they believe Funding Circle values diversity, and 88% believing people from all backgrounds have equal opportunities to succeed. Key highlights of the year included the delivery of a female empowerment programme to support women earlier in their career at the Company, and the establishment of our sixth Circler led support group focused on Neurodiversity. • 2022 was a year that Funding Circle was recognised externally for its DEI efforts. In the UK, our new partner leave policy was recognised as the Diversity & Inclusion Initiative of the Year at the AltFi Awards, as well as Lisa Jacobs winning CEO of the Year. In the US, Funding Circle was named as one of Built In's Inaugural LGBTQIA+ Advocacy Award Winners and in its 2022 Best Places to Work Awards. • Funding Circle has embedded DEI practices throughout the Circler life-cycle, from ensuring that interview panels are diverse, targeting recruiting efforts in teams with lower diversity statistics with significant progress in the Capital Markets team, and reviewing our talent with a DEI lens identifying opportunities to progress Circlers up the business and supporting them to achieve their potential at Funding Circle. • Senior gender diversity is reported at 33%, which is flat to last year however, we continue to progress towards our stretch goal of 40% representation. Excluding technology roles, we are now above the 40% target.	
Risk and sustainability – Building a resilient and sustainable business to support all of our stakeholders	**ESG goals** • As the interpretation of net zero continues to evolve, Funding Circle's ambition to reach net zero has changed to 2050 in line with the UK government's commitment, with a stretch goal to reach net zero by 2030 for our operational emissions, and good progress has been made on our carbon management plan (we anticipate developing a formal carbon transition plan, including metrics and targets in respect of our own operations, emissions and reductions plan during the course of 2023). Most significantly, the first measurement of Scope 3 financed emissions was completed for the US and UK loan books and a new carbon foot-printing firm was engaged to begin wider Scope 3 measurement in 2023, both of which are pre-requisite steps to target setting. Scope 3 financed emissions will be Funding Circle's largest emissions component by far and the most challenging to confront so the progress made on this aspect is excellent **Credit quality/net loan returns of loan cohorts** • Credit risk metrics have been assessed as "Green" for the entire year across both the UK and US. • Our portfolios in the US and UK are showing resilience and generally performing better than expectations, with returns expectations improving. **Control environment and change management** • Audits carried out on behalf of British Business Bank and other investors have received positive feedback and no material issues found; only one guarantee was rejected. • Continued to strengthen defences against cyberattacks and ransomware, and achieved our "road to amber" plan. • Transitioned smoothly from RLS to only core lending; launched other new products including super prime and near prime lending. • Continued to evolve FlexiPay, following its beta launch in 2021, with continuously optimised data driven strategies around credit risk and operational capabilities.	
CEO personal performance	In her first full year as CEO, she has executed well against both the short- and long-term agenda. She has launched a growth and profit-focused medium-term plan and has strengthened the leadership team with new hires in order to deliver against this in the US, FlexiPay and Technology. In a year when the macro environment has been challenging, she has led the business into new product areas whilst also ensuring a disciplined approach to risk and cost management. She leads with authenticity and the overall team engagement scores have been high.	

Category	Details on objectives	Performance assessment
CFO personal performance	The CFO has put clear succession plans in place for the Finance department, has retained key Circlers, and has created a culture that has led to high engagement in the department. He maintains a focus on cost management discipline. He has provided calm, thoughtful, open and transparent leadership, input and challenge to the Board, management team and CEO where needed. He manages many relationships with shareholders independently. In addition, in 2022, he stepped in to fill a temporary leadership gap in the US team in Q4, relocating temporarily to Denver. He has also absorbed our Capital Markets team, providing leadership on both a tactical and strategic basis to the team.	

Based on the performance against all of the non-financial objectives and personal performance, the Committee determined that the CEO and CFO would receive 96.3% of maximum of the non-financial element.

Long-term Incentive Plan "LTIP" vesting in respect of 2022

Oliver White was granted a performance based LTIP award on 19 June 2020 with a face value of 200% of salary (equivalent to an award of 925,390 nil-cost options) under our previous Remuneration Policy. The vesting was based on performance to 31 December 2022 against a scorecard of measures, as set out below. The Committee did not exercise its discretion to amend the stretching targets set in 2020.

		Targets				
Measure	Weighting	Threshold (25% vesting)	Target (50% vesting)	Maximum (100% vesting)	Actual performance	Vesting (% of element)
2022 EPS	50%	-1p	0p	3p	-2p	0%
UK Fee Income CAGR 2020-2022	40%	5%	10%	15%	1%	0%
US Fee Income CAGR 2020-2022	10%	0%	2.5%	7.5%	-20%	0%
				Total vesting (% of maximum)		0%
				Total vesting (no. of shares)		0
				Total vesting (£k)		0

Restricted Share awards granted during 2022

Restricted Share awards were granted to the Executive Directors on 24 March 2022 under our Policy. Details of the awards are set out below:

	Type of award	Number of shares	Face value at grant [1]	Grant date	Vesting date	Holding period
Lisa Jacobs	Nil-cost option	358,177	£239,979	24 March 2022	24 March 2025	24 March 2025 to 24 March 2027
Oliver White	Nil-cost option	269,306	£180,435	24 March 2022	24 March 2025	24 March 2025 to 24 March 2027

1 Based on a grant date share price of £0.67

Vesting will be subject to a financial underpin based on Total Income as well as qualitative underpins to ensure that Executive Directors are not rewarded where the Committee considers there to have been a failure in performance, including serious breaches of regulation, material reputational damage or gross misconduct. The financial underpin was set such that annual Total Income must be on average £181.3m over the period of three years 2022 to 2024. Prior to vesting, the Committee will assess whether the actual performance of the Company and Executive Directors warrants the vesting of awards, to guard against payment for failure or windfall gains. The Committee retains the discretion to make any adjustment to vesting it deems necessary.

Annual report on remuneration continued

Directors' shareholding and share interests (audited)

Table of Directors' share interests as at 31 December 2022

	Beneficially owned shares[1]	Vested but unexercised awards	Unvested awards (not subject to performance conditions)	Unvested awards (subject to performance conditions)	Total
Executive Directors					
Lisa Jacobs	285,296	589,646	246,302	358,177	**1,479,421**
Oliver White	257,062	75,883	159,664	1,464,002	**1,956,611**
Non-Executive Directors					
Andrew Learoyd	1,689,991	100,000	–	–	**1,789,991**
Samir Desai (appointed 1 January 2022)	16,397,164	1,881,250	461,320	–	**18,739,734**
Eric Daniels	–	383,204	–	–	**383,204**
Geeta Gopalan	33,216	–	–	–	**33,216**
Helen Beck	9,235	–	–	–	**9,235**
Matthew King	15,400	–	–	–	**15,400**
Hendrik Nelis	–	–	–	–	–
Neil Rimer	–	–	–	–	–

1 Includes shares owned by connected persons

The Company's share ownership requirements are that Executive Directors shall (subject to personal circumstances) build and maintain a shareholding equivalent to at least 200% of salary over five years from their appointment. At the end of the 2022 financial year, the CEO (who was appointed to the Board on 1 January 2022), held 1,121,244 shares, equal to 139.6% of salary based on the three-month average share price to 31 December 2022 of 49.8p. The CFO (who was appointed to the Board on 15 June 2020), held 492,609 shares, equal to 61.3% of salary based on the three month average share price to 31 December 2022 of 49.8p. Unvested awards subject to performance conditions are not taken into account in the assessment of the shareholding until such time as they vest.

As an early-stage private company, which did not pay Directors' fees, the Company historically granted options to certain Non-Executive Directors under the Company's pre-IPO share option plan. Although the options granted will continue to be held by those Non-Executive Directors going forward, no further options have or will be granted to Non-Executive Directors post-IPO under any of the Company's share option plans. The options held by the relevant Non-Executive Directors are all vested

Table of Directors' vested and unvested share awards (audited)

	Award type[1]	No. of awards at 1 January 2022	Awards granted in the year	Awards lapsed in the year	Awards vested in the year	Awards exercised in the year	**No. of awards at 31 December 2022**	Date of vesting commenced	Exercise price/ subscription price	Market price on exercise
Executive Directors										
Lisa Jacobs	2018 LTIP	250,000	–	–	62,500	–	**250,000**	11/03/2020	£0.00	n/a
		162,500	–	–	162,500	–	**162,500**	12/03/2022	£0.00	n/a
		173,642	–	–	–	–	**173,642**	26/03/2023	£0.00	n/a
	Restricted Shares	–	358,177	–	–	–	**358,177**	24/03/2025	£0.00	n/a
	Share Incentive Plan	4,646	–	–	4,646	–	**4,646**	15/04/2022	£0.00	n/a
		2,341	–	–	–	–	**2,341**	05/05/2023	£0.00	n/a
		–	7,819	–	–	–	**7,819**	20/04/2024	£0.00	n/a
	2011 EMI Share Plan	175,000	–	–	–	(175,000)	**–**	26/09/2016	£0.02	£0.61
		41,000	–	–	–	–	**41,000**	19/03/2017	£0.02	n/a
		44,000	–	–	–	–	**44,000**	05/11/2017	£0.02	n/a
	Unapproved	150,000	–	–	–	–	**150,000**	01/03/2022	£0.44	n/a
Oliver White	2018 LTIP[2]	925,390	–	–	–	–	**925,390**	31/03/2023	£0.00	n/a
	Share Incentive Plan	4,991	–	–	4,991	–	**4,991**	15/04/2022	£0.00	n/a
		3,967	–	–	–	–	**3,967**	18/01/2023	£0.00	n/a
		–	7,819	–	–	–	**7,819**	20/04/2024	£0.00	n/a
	2020 bonus buyout	71,237	–	–	71,237	–	**71,237**	26/03/2022	£0.00	n/a
	Restricted Shares	269,306	–	–	–	–	**269,306**	19/05/2024	£0.00	n/a
		–	269,306	–	–	–	**269,306**	24/03/2025	£0.00	n/a
	2021 Deferred bonus plan	–	147,533	–	–	–	**147,533**	25/03/2025	£0.00	n/a
Non-Executive Directors										
Andrew Learoyd	Unapproved	100,000	–	–	–	–	**100,000**	18/06/2015	£0.32	n/a
Samir Desai	Unapproved	2,150,000	–	–	537,500	–	**2,150,000**	01/06/2020	£0.00	n/a
	2021 Deferred bonus plan	–	192,570	–	–	–	**192,570**	21/04/2025	£0.00	n/a
Eric Daniels										
	Unapproved	195,704	–	–	–	–	**195,704**	22/04/2013	£0.03	n/a
	Unapproved	187,500	–	–	–	–	**187,500**	01/03/2016	£0.39	n/a

1 Other than in certain circumstances as set out in the 2021 Directors' Report on Remuneration on page 102 (e.g. on termination of employment or change of control), vested unapproved options can be exercised during a period of ten years from the date of grant.

2. Oliver White 925,306 were granted under the 2018 Long-Term Incentive plan on 19th June 2020 and will lapse based on performance ending in the financial year 2022

Payments for loss of office

There were no payments made for loss of office during the year.

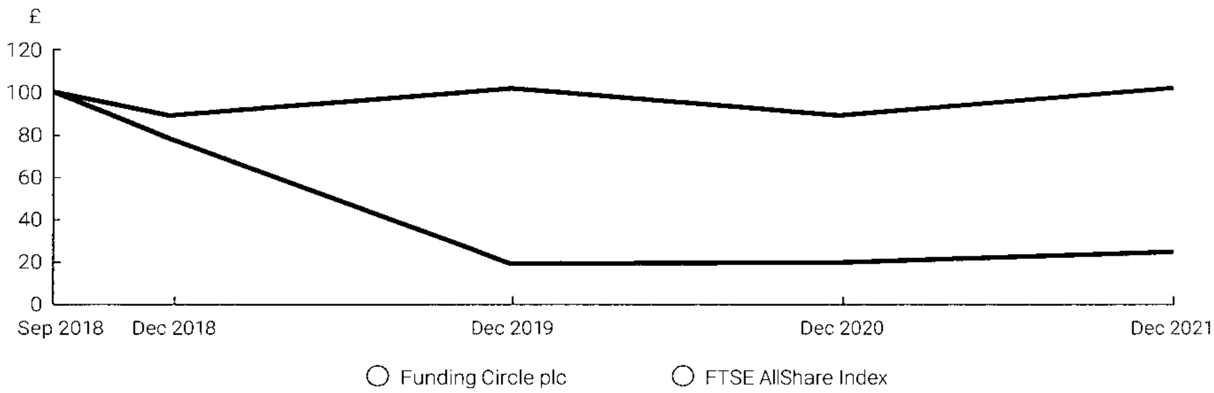
Payments to former Directors

There were no payments made to former Directors during the year.

Annual report on remuneration continued

Performance graph

The chart below illustrates the Company's TSR performance compared with that of the FTSE AllShare Index. This index has been chosen as the Company is a constituent and it is considered the most appropriate benchmark against which to assess the relative performance of the Company. The chart shows the value of £100 invested in Funding Circle at the IPO offer price of £4.40 per share on 28 September 2018 compared with the value of £100 invested in the FTSE AllShare Index on that date.



CEO remuneration table

The table below sets out the CEO's single figure of total remuneration.

£000	2016	2017	2018	2019	2020	2021	**2022**
CEO	Samir Desai	Samir Desai	Samir Desai	Samir Desai	Samir Desai	Samir Desai	**Lisa Jacobs**
CEO total remuneration[1]	160	204	4,081	211	201	629	**661**
Annual bonus payout (% maximum)[2]	n/a	n/a	n/a	n/a	n/a	78.4%	**45.0%**
Long-term incentives (% maximum)[3]	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

1. The 2018 figure includes share options that were granted prior to IPO which were subject to continued employment only. In 2021 Samir Desai waived his salary increase from £210,000 to £400,000.
2. The CEO received no bonus from 2016 to 2020.
3. Samir Desai did not participate in any long-term incentive. Lisa Jacobs' first long-term incentive opportunity as CEO was the Restricted Share award made in March 2022. The % vesting of this award will be reported against 2024 in the relevant Directors' Remuneration Report.

Relative importance of spend on pay

The table below sets out our relative importance of spend on pay. There have been no dividends paid to date.

Total Income and Adjusted EBITDA (AEBITDA) have been presented as these are two key performance measures used by the Directors in assessing Funding Circle's performance.

	2022	2021	% Change
Total Income	**£148.7m**	£206.9m	(28)%
Adjusted EBITDA	**£6.8m**	£91.8m	(93)%
Employee costs	**£86.4m**	£78.3m	10%
Average number of employees	**893**	804	11%

Percentage change in Directors' remuneration compared with employees

The table below sets out the annual percentage change in remuneration from 2019 to 2022 for each individual who was a Director during 2022, compared to that for an average employee. Data for former Directors during this timeframe can be found in the relevant Directors' Remuneration Reports spanning their tenure

	Salary/fees[1]			Benefits			Annual bonus		
	2021 to 2022	2020 to 2021	2019 to 2020	2021 to 2022	2020 to 2021	2019 to 2020	2021 to 2022	2020 to 2021	2019 to 2020
Executive Directors									
Lisa Jacobs[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Samir Desai (CEO)	n/a	+5%	-5%	n/a	+33.6%[3]	0%	n/a	n/a	n/a
Oliver White[4]	–	–	n/a	-22%	+8.4%	n/a	-43.7%	n/a	n/a
Non-Executive Directors									
Andrew Learoyd	+2.9%	+5%	-5%	n/a	n/a	n/a	n/a	n/a	n/a
Samir Desai (NED)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Eric Daniels	+6.4%	+5%	-5%	+21%	n/a	-100%	n/a	n/a	n/a
Geeta Gopalan	+11%	+15%	-5%	n/a	n/a	n/a	n/a	n/a	n/a
Helen Beck[5]	+6.4%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Matthew King[6]	+39.3%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hendrik Nelis[7]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Neil Rimer[7]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average employee[8]	8.7%	-13.3%	-1.7%	-4.0%	+8.7%	+1.8%	+3.3%	+17.1%	+61.2%

1. The Board and the Global Leadership Team voluntarily reduced their salaries and fees by 20% over the period March to May 2020 in response to the Covid-19 pandemic. This is the reason for the change in salaries and fees from 2019 to 2021 shown above. No Director received a salary or fee increase during 2020 or 2021. Samir Desai, as CEO, waived his salary increase for 2021.
2. Lisa Jacobs was appointed to the Board on 1 January 2022.
3. Samir Desai's benefits did not include a pension contribution or cash in lieu which he waived his right to.
4. Oliver White was appointed to the Board on 15 June 2020.
5. Helen Beck was appointed to the Board on 1 June 2021. For the comparison of 2021 to 2022, Helen's 2021 fee has been annualised to permit meaningful comparison. The increase reported in the table above reflects the increase in 2022 in the additional fee payable for chairing the Remuneration Committee.
6. Matthew King was appointed to the Board on 19 May 2021. For the comparison of 2021 to 2022, Matthew's 2021 fee has been annualised to permit meaningful comparison. The increase reported in the table above reflects the introduction of an additional fee payable for chairing the Board of Funding Circle Ltd.
7. Hendrik Nelis and Neil Rimer, who are not independent Non-Executive Directors, have waived their entitlement to a fee.
8. The annual percentage change of the average remuneration of the Company's employees, calculated on a full-time equivalent basis.

CEO pay ratio

Funding Circle is committed to remunerating its employees fairly and competitively. We calculate our CEO pay ratio using the prescribed Methodology A, as shown in the table below. Methodology A was selected as this is considered the most accurate approach and is generally the preferred approach by shareholders and proxy agencies.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Option A	17.6	11.3	7.0
2021	Option A	18.4	11.6	6.9
2020	Option A	5.8	3.8	2.3
2019	Option A	6.8	3.9	2.5

There has been an slight decrease in the CEO pay ratio for 2022 due to Circler pay increasing at a higher rate than the change in pay between Lisa Jacobs as CEO in 2022 and Samir Desai as CEO in 2021. The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Annual report on remuneration continued

Total pay and benefits used to calculate the ratios

The table below sets out the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure.

	CEO	25th percentile	Median	75th percentile
2022				
Salary component	£400,000	£31,007	£48,271	£81,441
Total pay and benefits	£660,542	£37,429	£58,083	£94,385

The CEO remuneration is the total single figure remuneration for the relevant years and 2021 and 2022 are disclosed on page 106. The UK employee total remuneration has been calculated based on the amount paid or receivable for the relevant years. The calculations for the UK employees were performed as at the final day of the relevant financial year.

Implementation of the Remuneration Policy for the year ended 31 December 2023

Salary

The table below shows the salaries for the Executive Directors as at 1 March 2023 in comparison to base salary as at 1 March 2022. The below increases are below the budget for other Circlers of 5%.

	1 March 2023	1 January 2022[1]	% change
Lisa Jacobs	£414,000	£400,000	+3.5%
Oliver White	£410,000	£400,000	+2.5%

Annual bonus

The maximum opportunity for the CEO is 133% of salary and for the CFO is 100% of salary. The target opportunity for both is 50% of maximum opportunity. The annual bonus measures will be as follows:

2023 measure	2023 measure
AEBITDA	30%
Total Income	30%
FlexiPay (Financial/Strategic)	10%
Strategic/non-financial measures	30%

40% of any bonus earned will be deferred into shares for three years. The Board considers the actual targets for 2023 to be commercially sensitive at this time, however, we will provide retrospective disclosure of these targets in next year's report.

The Committee may apply its discretion to amend the bonus payout should any formulaic assessment of performance not reflect the Committee's assessment of overall business performance, the performance of the individual, or the experience of shareholders or other stakeholders over the performance year.

Restricted Share awards

In accordance with our Policy, the number of Restricted Shares granted to Executive Directors in 2023 will be equal to the number granted in 2021 and 2022.

Accordingly, the CEO and the CFO will be awarded 358,177 and 269,306 Restricted Shares respectively in 2023. Application of the Policy means that the face value of the award is formulaically reduced if there has been a fall in the share price, which aligns with proxy agency guidance. As shown in our "Illustration of the application of Remuneration Policy in 2023" charts, the grant date face value of 2023 Restricted Share awards would be c.25% lower compared to 2022 Restricted Share awards (assumes a share price of 49.8p at the time the 2023 Restricted Share awards are granted, which was the three month average share price to 31 December 2022).

Vesting will be subject to a financial underpin based on Total Income as well as qualitative underpins to ensure that Executive Directors are not rewarded where the Committee considers there to have been a failure in performance, including serious breaches of regulation, material reputational damage or gross misconduct. The financial underpin has been set such that annual Total Income must be on average £130 million over the period of three years from 2023 to 2025. Prior to vesting, the Committee will assess whether the actual performance of the Company and Executive Directors warrants vesting of the awards, to guard against payment for failure or windfall gains. The Committee retains the discretion to make any adjustment to vesting it deems necessary. Any vested awards will remain subject to a two-year post-vesting holding period.

Benefits and pension contributions

In line with our Policy, the benefits offered to Executive Directors are in line with those available to other employees in the Group. All Circlers (including Executive Directors) are offered the opportunity to receive Private Medical Insurance, life assurance, dental insurance, and a health cash plan paid for by Funding Circle. Circlers can upgrade their cover and include family members/ spouses/partners at their own cost. The Executive Directors, and all UK Circlers, are eligible to receive a pension contribution or cash in lieu of 5% of salary.

2022 and 2023 Non-Executive Director and Chair fees

It has been determined that the Non-Executive Director fees will remain unchanged for 2023, as set out in the table below:

Fee	2022	2023
Chair fee	£207,000	£207,000
Non-Executive Director base fee	£55,000	£55,000
Senior Independent Director fee	£10,000	£10,000
Committee Chair fees (other than the Nomination Committee)	£15,000	£15,000
Chair of Funding Circle Ltd	£15,000	£15,000

This report has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the 2018 UK Corporate Governance Code and the UK Listing Authority's Listing Rules.

Report of the Directors

for the year ended 31 December 2022

The Directors present their report (the "Directors' Report") and the Annual Report and Accounts for the year ended 31 December 2022.

Information required to be part of the Directors' Report either by statute, by Listing Rule 9.8 or by the DTRs can be found either in this section or elsewhere in this document, as indicated in the table below. All information located elsewhere in this document is incorporated into this Directors' Report by reference:

Section of Annual Report	Page reference
Information required by LR9.8/DTRs	
Corporate Governance Statement	Corporate Governance Statement (page 80)
Going Concern and Viability Statement	Risk Management (page 71)
Directors' interests	Remuneration Report (page 110) and Directors' Report (page 116)
Long-term incentive schemes	Remuneration Report (page 109)
Waiver of emoluments	Remuneration Report (pages 106)
Powers for the Company to buy back its shares	Directors' Report (page 117)
Allotment of shares during the year	Note 17 to the financial statements
Significant shareholders	Directors' Report (page 118)
Related party agreements	Note 25 to the financial statements
Diversity policy	Strategic Report (page 25)
Climate-related financial disclosures	Environment, social and governance ("ESG") (pages 30 to 43)
Statutory information	
Stakeholder engagement	Strategic Report – Our stakeholders (pages 44 to 46). See also Board decision making and section 172 duties on pages 78 to 79 of the Corporate Governance Report.
Employee engagement	Strategic Report – Our stakeholders (pages 44 to 46) and Our People (page 24). See also Board decision making and section 172 duties on pages 78 to 79 of the Corporate Governance Report.
Policy concerning the employment of disabled persons	Strategic Report – Our people (page 25)
Financial instruments	Note 16 to the financial statements
Future developments of the business	Strategic Report (pages 15 to 17)
Greenhouse gas emissions, energy consumption and energy efficiency action	Strategic Report – Environment, social and governance (pages 39 to 41)
Significant agreements	Directors' Report (page 116)
Non-financial reporting	Strategic Report – see below

Management Report

This Directors' Report, together with the Strategic Report on pages 1 to 71, forms the Management Report for the purposes of DTR 4.1.5R.

Strategic Report

Section 414A of the Companies Act 2006 (the "Act") requires the Directors to present a Strategic Report in the Annual Report and Accounts. The information can be found on pages 1 to 71.

The Company has chosen, in accordance with section 414C (11) of the Act and as noted in this Directors' Report, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' Report.

Section 414C of the Act requires the Company to include within its Strategic Report a non-financial statement setting out such information as is required by section 414CB of the Act. Such information is set out in the Our people section on pages 24 to 27, the ESG section on pages 28 to 43, the Our business model and Our strategy sections on pages 18 to 19 and 22 to 23, our key performance indicators on page 20, and the Risk management and Going concern and Viability statement sections on pages 55 to 71

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on page 74 to 75. Our Articles of Association provide that all our Directors must stand for re-election by shareholders at each AGM

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 105. The interests of the Directors in the shares of the Company are also shown on page 110 of that report. In the period between 31 December 2022 and 28 February 2023 (being the latest practicable date prior to the date of this report), there were no additional ordinary shares allotted to Lisa Jacobs or Oliver White under the Company's Share Incentive Plan.

In line with the requirements of the Act, each Director has notified the Company of any situation in which they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). The Board has formal procedures to deal with Directors' conflicts of interest.

None of the Directors has a material interest in any significant contract with the Company or any member of its Group.

Insurance and indemnities

The Company maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. In addition the Company indemnifies each Director under a separate deed of indemnity. The Company also indemnifies each Director under its Articles of Association. Such indemnities are qualifying indemnities for the purposes of, and permitted under, section 234 of the Act.

Results and dividends

The Group's and the Company's audited financial statements for the year are set out on pages 128 to 189.

The Directors do not recommend payment of a final dividend for 2022 (2021: £nil).

Authority to allot or purchase the Company's shares

The Articles permit the Directors to issue or approve the purchase by the Company of its own shares, subject to obtaining shareholders' prior approval. The authority to issue or buy back shares will expire at the 2023 AGM, and it will be proposed at the meeting that the Directors be granted new authorities to issue and buy back shares. The Directors currently have authority to approve the Company's purchase of up to 35,732,624 of the Company's ordinary shares. The trustee of the Company's Employee Benefit Trust made market purchases of 17,660,340 (2021: nil) ordinary shares of nominal value of £0.001 in the Company from March to August 2022, representing 4.89% of the issued share capital at 31 December 2022, for the purpose of satisfying employee share option plans. The total cost of the market purchases was £8.7m with the average purchase price of each share being £0.50. This represents the maximum number of purchased shares held during the year. 1,189,101 of the purchased shares were utilised during the year to satisfy the exercise of employee share options. As at 28 February 2023 , the trustee holds 4.42% of the Company's issued share capital.

Share capital

The Company's issued share capital comprises ordinary shares of £0.001, each of which are listed on the London Stock Exchange. The issued share capital of the Company as at 31 December 2022 comprises 361,303,143 ordinary shares of £0.001 each. Further information regarding the Company's issued share capital can be found on page 168 of the financial statements.

Details of the shares held by the Group's Employee Benefit Trust are disclosed in note 17 to the financial statements.

Rights attaching to shares

All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below. Except in relation to dividends and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company. The Company's shares are not redeemable. However, following any grant of authority from shareholders, the Company may purchase or contract to purchase any of the shares on or off market, subject to the Act and the requirements of the Listing Rules.

Voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting, every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every share of which he or she is the holder. No shareholder holds ordinary shares carrying special rights relating to the control of the Company and the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights.

Shares held by the Company's Employee Benefit Trust rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to shares held in trust rest with the Trustees and are not exercisable by employees, although the Trustees will exercise such rights arising from allocated shares in accordance with the relevant participant's directions.

Restrictions on transfer of securities

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. All issued share capital of the Company at the date of this report is fully paid. Certain restrictions are also imposed by laws and regulations (such as insider dealing and market requirements relating to closed periods) and requirements of the Disclosure Guidance and Transparency Rules, as well as the Company's own dealing codes, whereby Directors, persons connected to the Directors and certain employees of the Company require approval to deal in the Company's securities.

Change of control

Certain LTIP awards held by members of the GLT (excluding the Executive Directors) and an award made to the CEO in 2019 contain additional protections in the event of termination of employment due to a takeover bid where such termination is deemed to be connected with the change of control. Save in respect of these awards, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid

Report of the Directors continued

Change of control continued

The Group is party to a limited number of funding and servicing agreements that include change of control provisions which, in the event of a change of control undertaken not in compliance with the procedural requirements of the relevant arrangement, could result in the termination of further loan origination and termination of servicing by the Group under the affected arrangement. In addition, the Group participates in one or more lending schemes that benefit from a form of government-backed guarantee and it is expected that, in the event of a change of control of the Company, the consent of the relevant loan guarantor would be required to enable the Group's continued participation in those schemes.

Significant shareholdings

As at 31 December 2022, the Company has been notified pursuant to DTR5.1, or is otherwise aware, of the following significant interests in the issued ordinary share capital of the Company:

Name of shareholder	Number of ordinary shares as at 31 December 2022	Percentage issued share capital as at 31 December 2022
Index Ventures	58,618,351	16.22
Aktieselskabet af 2.7.2018	46,507,936	12.87
Accel London Management	26,906,743	7.45
T Rowe Price Global Investments	21,567,636	5.97
Funding Circle Employee Benefit Trust	16,726,515	4.63
DST Managers	16,505,378	4.57
JO Hambro Capital	16,403,932	4.54
Mr Samir Desai	16,397,164	4.54
Capital Group	14,713,073	4.07

In the period between 31 December 2022 and 28 February 2023 (the latest practicable date prior to the date of this report), the Company received no further notifications pursuant to DTR5.1.

Research and development

The Group invests in the research and development of technology and software products that enable the Group to achieve its key performance objective of growing lending to SMEs whilst delivering resilient returns to investors.

Political donations

There were no political donations made during the year or the previous year.

External branches

The Company has subsidiaries in the United Kingdom, the United States of America, Germany, Spain and the Netherlands and has one UK branch of the Netherlands entity that was set up during the reporting period.

External auditors

PwC have confirmed their willingness to continue as external auditors and a resolution to reappoint them as the Company's external auditors, and to authorise the Directors to fix the auditors' remuneration, will be proposed at the 2023 AGM

Statement of disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's external auditors are unaware; and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

2023 AGM

The Company's AGM will take place at 12:00 on 11 May 2023 at the Company's offices at 71 Queen Victoria Street, London, EC4V 4AY.

A separate circular, comprising a letter from the Chair of the Board, Notice of Meeting and explanatory notes on the resolutions being proposed, has been circulated to shareholders and is available on our website, https:// corporate fundingcircle com/ investors/shareholder-meetings.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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

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

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

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

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Approved by the Board and signed on its behalf.

Lisa Jacobs
Chief Executive Officer
2 March 2023

Financial statements

Independent auditors' report

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion, Funding Circle Holdings plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 December 2022; the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 4, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit included full scope audits of the UK and US components. We performed audit procedures over specific balances in respect of the Funding Circle Central Europe ("FCCE") component at a Group level which together with the full scope audits accounted for 96% of the Group's total income and 99% of the Group's loss before taxation.
- The scope of the audit and the nature, timing and extent of audit procedures were determined by our risk assessment, the financial significance of financial statement line items and qualitative factors (including history of misstatement through fraud or error). In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

- Valuation of SME loans (securitised) and investments and co-investments in RLS / CBILs trusts (Group).
- Carrying value of the Company's investment in the US subsidiary (Company).

Materiality

- Overall Group materiality: £1,430,000 (2021: £1,800,000) based on 5% of the average of profit/loss before taxation for the previous three years, adjusted for exceptional items and fair value gains and losses.
- Overall Company materiality: £3,840,000 (2021: £3,400,000) based on 1% of total assets.
- Performance materiality: £1,072,500 (2021: £1,350,000) (Group) and £2,888,000 (2021: £2,500,000) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of SME loans (securitised) and investments and co-investments in RLS / CBILS trusts (Group) Refer to Report of the Audit Committee – Significant issues considered in relation to the financial statements; note 1 (accounting policies); note 2 (critical accounting judgements and key sources of estimation uncertainty); note 12 (investment in SME loans), and note 16 (financial risk management) of the Group financial statements. The Group holds portfolios of investments in SME loans (securitised) and investments and co-investments in RLS / CBILS trusts and records them on the balance sheet at fair value with resultant gains and losses recognised in the income statement. As at the balance sheet date, the Group's investment in SME loans (securitised) and investments and co-investments in RLS / CBILs trusts held at fair value totalled £74.5m The estimation of the fair value of the SME loans (securitised) and investments and co-investments in RLS / CBILS trusts requires models which ultilise both observable and unobservable inputs, with reasonable movements in the significant assumptions resulting in material changes to fair value. We performed sensitivity analysis to assess the susceptibility of changes in key assumptions and identified the discount rate in the investments and co-investments in leveraged RLS / CBILS trusts and the discount rate and default rates in the US SME loans (securitised) as the significant assumptions. As a result the valuation of the SME loans (securitised) and investments and co-investments in RLS / CBILS trusts has been an area of focus in our audit	Our audit procedures comprised the following: • We understood and evaluated the design and implementation of controls relating to the valuation of the Group's portfolio of SME loans (securitised) and investments and co-investments in RLS / CBILs trusts • We engaged our valuation experts to assess the appropriateness of the methodology used by management in determining the valuation of the investments in SME loans (securitised) and investments and co-investments in RLS / CBILs trusts which are held at fair value. This included assessing the reasonableness of the significant assumptions within the valuation models, which we considered to be the discount rate and default rate for the US SME loans (securitised) and the discount rate in the investments and co-investments in the leveraged RLS / CBILs trusts. Our assessment of the reasonableness of the assumptions included comparison to historical performance and third party data where available. • We derived our own independent estimate of the discount rates and compared these to those used by management • We built our own independent models to re-calculate the fair value using management's assumptions. Based on the above procedures performed, and the evidence obtained, we concluded that the estimated fair value of the SME loans (securitised) and investments and co-investments in RLS / CBILS trusts were reasonable We evaluated the appropriateness of the related key sources of estimation uncertainty disclosure in note 2 to the Group financial statements and the disclosures on financial instruments in note 12 and note 16 and considered these to be reasonable.
Carrying value of the Company's investment in the US subsidiary (Company) Refer to Report of the Audit Committee – Significant issues considered in relation to the financial statements, note 1 accounting policies including key sources of estimation uncertainty); and note 5 (investments in subsidiary undertakings) of the Company financial statements The Company holds an investment in the US subsidiary with a carrying value of £80.5m after the reversal of impairment loss of £45.3m in the year. IAS 36 'Impairment of Assets' requires that investments are subject to an impairment review when there is an indication that an asset may be impaired or where there may be an impairment reversal. The main indicators that there may be a reversal of the impairment in the carrying value of the investment in the US subsidiary are the improvement in the forecast performance of the business as well as the net asset value exceeding the carrying value at the balance sheet date. Management performed an impairment assessment and estimated the recoverable amount using a value-in-use model. This assessment identified an impairment reversal of £45.3m. We performed sensitivity analysis to assess the susceptibility of change in assumptions and identified the revenue growth rate, transfer pricing arrangements between the US and the UK and the discount rate as the key assumptions Given the magnitude of the carrying value of the investment in the US subsidiary to the Company this has been an area of focus in our audit.	Our audit procedures comprised the following: • We understood the controls relating to the Company's impairment assessments. • We assessed the methodology used by management against the requirements of the financial reporting framework and tested the mathematical accuracy of the model. • We agreed the forecast financial information to budgets and forecasts approved by senior management and the Board, including the adjustments from the Medium-Term Plan. • We compared the forecast growth rates with those achieved by the US business in the past • We identified the key drivers in management's forecasts and assessed their reasonableness by comparing them to historical results • We assessed the appropriateness of the discount rate assumption by using our valuation experts to derive an independent view on the rate and compared this to the one used by management. • We engaged tax specialists to review and assess the reasonableness of the Group's transfer pricing policy and arrangements We tested whether transfer pricing adjustments were consistent with the policy and have been appropriately reflected within the model. Based on the above procedures performed, and the evidence obtained, we considered the Directors' conclusion that there has been an indicator of a reversal of the impairment in the carrying value and that the carrying value of the US subsidiary had increased to £80.5m to be reasonable. We evaluated the appropriateness of the related disclosures in note 1 (significant accounting policies including key sources of estimation uncertainty) to the Company's financial statements and note 5 (investments in subsidiaries) and considered these to be reasonable

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

1) Audit approach to Funding Circle's operations: We performed a risk assessment, giving consideration to relevant external and internal factors, including economic risks, climate change, relevant accounting and regulatory developments, and Funding Circle's strategy. We also considered our knowledge and experience obtained in prior year audits. We designed our audit approach for the products and services that substantially make up Funding Circle's businesses in the UK, US and CE, such as platform lending, marketplace referrals, lines of credit and the origination of, and investment in, SME loan portfolios. The audit approach was designed by a partner and team members who are specialists in the relevant areas. The risk assessment and audit approach were provided to the US audit team who contributed to the Group audit.

2) Audit work for in scope components: Through our risk assessment and scoping we identified Funding Circle Limited and the US group as full scope components due to being financially significant. We considered FCCE as a limited scope entity for specific balances including loan repurchase liability and cash. We instructed our network firm in the US to perform a full scope audit of the US component. The Group audit team performed the audit work for the UK components and the specific work over FCCE balances. We assigned materiality levels to components reflecting the size of their operations. The performance materiality levels ranged from £750,000 to £1,020,000. We determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. This included active and regular dialogue with the partner and team responsible for the audit of the US component, the issuance of instructions, reviewing their audit plan and strategy and a review of their audit working papers and their findings in certain areas. Analytical review procedures were performed over FCCE, a non-significant component with material balances, to mitigate the risk of material misstatement.

3) Audit procedures undertaken at a Group level and on the Company: We ensured that appropriate further work was undertaken for the Group and Company. Certain account balances were audited centrally by the Group engagement team, including the Company's investment in subsidiary undertakings, investments in associates, valuation of SME loans, capitalisation of development costs, marketplace fee revenue, operating expenses, leases, share based payments, the consolidation of the Group's results, the preparation of the financial statements, and certain disclosures within the Directors' remuneration report and taxation.

4) Using the work of others. We used the evidence provided by our valuation experts and specialists for our work on certain assumptions used in the impairment assessment over the Company's investment in the US subsidiary, the valuation of the SME loans (securitised) and investments and co-investments in RLS / CBILs trusts recorded at fair value, and the provision for expected credit losses on lines of credit.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's and Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Our audit approach continued

Materiality continued

	Financial statements – Group	Financial statements – Company
Overall materiality	£1,430,000 (2021: £1,800,000).	£3,840,000 (2021: £3,400,000).
How we determined it	5% of the average of profit/loss before taxation for the previous three years, adjusted for exceptional items and fair value gains and losses.	1% of total assets.
Rationale for benchmark applied	We determined materiality by applying 5% to the average consolidated profit/loss before taxation for the previous three years after adjusting for exceptional items and fair value gains and losses. We consider profit/loss before taxation to be the most appropriate benchmark used in assessing the performance of the Group as the business is listed and profit orientated. Given the volatility in the underlying performance, we consider it appropriate to take an average of the results of the preceding three years. We believe that profit/loss before taxation adjusted for exceptional items and fair value gains and losses is an appropriate measure as it eliminates the impact of one-off non-recurring items which significantly impact comparability.	We consider total assets to be the most appropriate benchmark to apply on the basis that the Company is a non-trading investment company that holds investment in the Group's subsidiaries.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1,000,000 and £1,358,500. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £1,072,500 (2021: £1,350,000) for the Group financial statements and £2,880,000 (2021: £2,500,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £71,500 (Group audit) (2021: 90,000) and £195,000 (Company audit) (2021: £95,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of external risks such as an uncertain economic environment and climate change;
- understanding and evaluating management's financial forecasts and liquidity and regulatory capital over the going concern period including the impact of new products such as FlexiPay and an evaluation of the stress testing performed by management;
- review of management's covenant compliance monitoring and the impact of the stress scenarios on the covenants;
- substantiation of financial resources available to the Group and Company as at the balance sheet date including the unrestricted cash; and
- reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Report on the audit of the financial statements continued

Conclusions relating to going concern continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Directors' remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- the directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- the disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated,
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- the directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Corporate governance statement continued

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- the section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company'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 the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Group's provision of regulated products and services under its Financial Conduct Authority ("FCA") licence, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and corporate tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to bias in accounting estimates and judgments and the posting of manual journal entries in respect of transaction, marketplace, servicing, interest income and other fees revenue streams. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- review of correspondence with, and reports to, the FCA;
- review of customer complaints to identify any indicators of breaches in laws and regulations;
- assessing matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- enquiries of the Directors, the Chair of the Audit Committee, the Head of Internal Audit and management, including the Group's general counsel and the Group's head of legal and regulatory, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud,
- review of internal audit reports issued in the period to identify any indicators of breaches in laws and regulations;
- identifying and testing journal entries and period end adjustments, including those with unusual account combinations including entries made in respect of transaction, marketplace, servicing, interest income and other fees revenue streams; and
- challenging significant assumptions and judgements made by management in its accounting estimates, in particular in relation those used in the determination of the fair value of SME loans (securitised), investments and co-investments in RLS / CBILs trusts, the provision for expected credit losses on loans held at amortised cost and the capitalisation of development costs.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Report on the audit of the financial statements continued

Responsibilities for the financial statements and the audit continued

Auditors' responsibilities for the audit of the financial statements continued

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 4 August 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is eight years, covering the years ended 31 December 2015 to 31 December 2022.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Nick Morrison

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	**31 December 2022 £m**	31 December 2021 Before exceptional items £m	Exceptional items[1] £m	31 December 2021 £m
Transaction fees		**77.5**	115.0	–	115.0
Servicing fees		**47.9**	47.0	–	47.0
Interest income[2]		**1.9**	–	–	–
Other fees		**4.1**	3.5	–	3.5
Operating income		**131.4**	165.5	–	165.5
Investment income		**22.0**	53.7	–	53.7
Investment expense		**(4.7)**	(12.3)	–	(12.3)
Total income		**148.7**	206.9	–	206.9
Fair value gains/(losses)		**4.8**	28.6	–	28.6
Net income	3	**153.5**	235.5	–	235.5
People costs	4, 6	**(85.9)**	(77.7)	–	(77.7)
Marketing costs	4	**(38.4)**	(46.9)	–	(46.9)
Depreciation, amortisation and impairment	4	**(17.0)**	(13.9)	(3.9)	(17.8)
Credit/(provision) for expected credit losses[3]	4, 15, 16	**1.5**	(1.2)	–	(1.2)
Other costs	4	**(28.4)**	(27.7)	–	(27.7)
Operating expenses	4	**(168.2)**	(167.4)	(3.9)	(171.3)
Operating (loss)/profit		**(14.7)**	68.1	(3.9)	64.2
Finance income	7	**2.3**	0.1	–	0.1
Finance costs	7	**(0.9)**	(1.1)	–	(1.1)
Share of net profit of associates	29	**0.4**	0.9	–	0.9
(Loss)/profit before taxation		**(12.9)**	68.0	(3.9)	64.1
Income tax credit/(charge)	8	**6.0**	(2.9)	–	(2.9)
(Loss)/profit for the year		**(6.9)**	65.1	(3.9)	61.2
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss:					
Exchange differences on translation of foreign operations	19	**5.8**	1.4	–	1.4
Total comprehensive (loss)/profit for the year		**(1.1)**	66.5	(3.9)	62.6
Total comprehensive (loss)/profit attributable to:					
Owners of the Parent		**(1.1)**	66.5	(3.9)	62.6
(Loss)/earnings per share					
Basic (loss)/earnings per share	9	**(2.0)p**	18.5p		17.4p
Diluted (loss)/earnings per share	9	**(1.8)p**	17.1p		16.0p

1. Exceptional items are detailed within note 5
2. Interest income recognised on assets held at amortised cost under the effective interest rate method
3. The comparative year ended 31 December 2021 has been re-presented to present "credit/(provision) for expected credit losses" which was previously included within "other costs"

All amounts relate to continuing activities.

The notes on pages 132 to 178 form part of these financial statements.

Consolidated balance sheet
as at 31 December 2022

	Note	31 December 2022 £m	31 December 2021[1] £m
Non-current assets			
Intangible assets	10	**28.2**	24.9
Property, plant and equipment	11	**10.0**	14.1
Investment in associates	29	**2.7**	7.6
Investment in trusts and co-investments	12	**28.7**	39.1
SME loans (other)	12	**24.8**	74.2
Deferred tax asset	8	**6.9**	—
Trade and other receivables	13	**3.4**	4.1
		104.7	164.0
Current assets			
SME loans (warehouse)	12	**2.4**	3.2
SME loans (securitised)	12	**45.8**	148.1
SME loans (other)	12	**20.9**	—
Lines of credit[1]	12	**16.0**	1.6
Trade and other receivables	13	**16.5**	25.0
Cash and cash equivalents	22	**177.7**	224.0
		279.3	401.9
Total assets		**384.0**	565.9
Current liabilities			
Trade and other payables	14	**31.8**	36.4
Bonds	16	**23.7**	140.3
Short-term provisions and other liabilities	15	**1.0**	3.4
Lease liabilities	11	**7.2**	6.9
		63.7	187.0
Non-current liabilities			
Long-term provisions and other liabilities	15	**1.1**	0.7
Bank borrowings	16	**22.6**	73.2
Lease liabilities	11	**12.6**	17.0
Total liabilities		**100.0**	277.9
Equity			
Share capital	17	**0.4**	0.4
Share premium account	18	**293.1**	293.0
Foreign exchange reserve	19	**16.9**	11.1
Share options reserve		**22.2**	19.1
Accumulated losses	20	**(48.6)**	(35.6)
Total equity		**284.0**	288.0
Total equity and liabilities		**384.0**	565.9

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

The financial statements on pages 128 to 178 were approved by the Board and authorised for issue on 02 March 2023. They were signed on behalf of the Board by:

Oliver White
Director
Company registration number 07123934

The notes on pages 132 to 178 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	(Accumulated losses)/ retained earnings £m	Total equity £m
Balance at 1 January 2021		0.3	292.6	9.7	13.6	(98.6)	217.6
Profit for the year	20	–	–	–	–	61.2	61.2
Other comprehensive income							
Exchange differences on translation of foreign operations	19	–	–	1.4	–	–	1.4
Total comprehensive income		–	–	1.4	–	61.2	62.6
Transactions with owners							
Transfer of share option costs	20	–	–	–	(1.8)	1.8	–
Issue of share capital	17, 18	0.1	0.4	–	–	–	0.5
Employee share schemes – value of employee services		–	–	–	7.3	–	7.3
Balance at 31 December 2021		0.4	293.0	11.1	19.1	(35.6)	288.0
Loss for the year	20	–	–	–	–	(6.9)	(6.9)
Other comprehensive income							
Exchange differences on translation of foreign operations	19	–	–	5.8	–	–	5.8
Total comprehensive income		–	–	5.8	–	(6.9)	(1.1)
Transactions with owners							
Transfer of share option costs	20	–	–	–	(2.6)	2.6	–
Purchase of own shares held in employee benefit trust		–	–	–	–	(8.7)	(8.7)
Issue of share capital	17, 18	–	0.1	–	–	–	0.1
Employee share schemes – value of employee services		–	–	–	5.7	–	5.7
Balance at 31 December 2022		**0.4**	**293.1**	**16.9**	**22.2**	**(48.6)**	**284.0**

The notes on pages 132 to 178 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2022

	Note	31 December 2022 £m	31 December 2021 £m
Net cash (outflow)/inflow from operating activities	22	**(10.4)**	98.5
Investing activities			
Purchase of intangible assets	10	**(12.7)**	(8.6)
Purchase of property, plant and equipment	11	**(1.2)**	(0.8)
Originations of SME loans (other)[1]	16	**(24.0)**	(209.9)
Cash receipts from SME loans (other)[1]	16	**59.5**	161.7
Cash receipts from SME loans (warehouse phase)	16	**2.8**	58.6
Proceeds from sale of SME loans (warehouse phase)	16	**–**	176.1
Cash receipts from SME loans (securitised)	16	**86.8**	150.2
Proceeds from sale of SME loans (securitised)	16	**39.5**	–
Investment in trusts and co-investments	16	**(6.4)**	(22.1)
Cash receipts from investments in trusts and co-investments	16	**10.0**	3.3
Redemption in associates	25, 29	**5.1**	3.9
Dividends from associates	25, 29	**0.3**	–
Interest received	7	**2.3**	0.1
Net cash inflow from investing activities		**162.0**	312.5
Financing activities			
Proceeds from bank borrowings	22	**–**	208.2
Repayment of bank borrowings	22	**(57.9)**	(331.3)
Payment of bond liabilities	22	**(129.1)**	(160.6)
Proceeds from the exercise of share options		**0.1**	0.4
Proceeds from subleases		**1.2**	0.2
Purchase of own shares		**(8.7)**	–
Payment of lease liabilities	22	**(7.3)**	(8.1)
Net cash outflow from financing activities		**(201.7)**	(291.2)
Net (decrease)/increase in cash and cash equivalents		**(50.1)**	119.8
Cash and cash equivalents at the beginning of the year		**224.0**	103.3
Effect of foreign exchange rate changes		**3.8**	0.9
Cash and cash equivalents at the end of the year	22	**177.7**	224.0

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

The impact of exceptional items on the consolidated statement of cash flows is detailed in note 5.

The notes on pages 132 to 178 form part of these financial statements.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2022

1. Accounting policies

General information

Funding Circle Holdings plc (the "Company") is a public company limited by shares, which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of its registered office is given on page 196. The consolidated financial statements of the Group for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activities of the Group and the nature of the Group's operations are as a global SME loan platform.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Going concern

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

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

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

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

The base case scenario assumes:

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

Management prepared a severe but plausible downside scenario in which:

- further macroeconomic volatility continues through the period with increased inflation and interest rates reducing originations and increasing costs;
- investment returns reduce owing to increased funding costs, widening discount rates and deterioration in loan performance;
- an operational event occurs requiring a cash outlay; and
- a downside loss scenario is applied to Funding Circle's on-balance sheet investment in SME loans resulting in higher initial fair value losses and lower cash flows to the investments it owns.

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

The Directors have made enquiries of management and considered budgets and cash flow forecasts for the Group and have, at the time of approving these financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Further detail is contained in the Strategic Report on pages 70 and 71.

Basis of preparation

The Group presents its annual financial statements in conformity with United Kingdom laws and regulations.

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom's Financial Conduct Authority.

1. Accounting policies continued

Basis of preparation continued

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value through profit and loss ("FVTPL").

The preparation of financial statements requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Significant changes in the current reporting year

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

i) Sale of securitised SME loans and unwind of UK and US SPVs (note 16)

In May 2022, Funding Circle exercised the call rights associated with the majority ownership of the unrated junior residual tranches of Small Business Origination Loan Trust 2019-3's bonds in the UK. The call option became exercisable as the portfolio and bond liabilities of the SPV had amortised to below a minimum threshold Funding Circle and the other junior note holder purchased the loans from the SPV, in line with their proportional ownership of the note tranches, at fair value. The proceeds, cash, and other assets of the vehicle were liquidated and used to repay outstanding expenses and interest and principal on the bond liabilities. As the SPV is consolidated, the net impact on the Group's financial statements was a sale of 49% of the UK securitised SME loans to the other junior note holder and repayment of the bond liabilities. The bond liabilities held at FVTPL were repaid at an amount higher than their previous fair value estimate as the cash flows were delivered sooner and at a higher amount resulting in a fair value loss as set out in note 15. As a result, there are no unrated bond liabilities remaining for the Group. Subsequently the Group owned 51% of the securitised SME loans, directly through the subsidiary Funding Circle Ltd. The majority *of the retained loans were sold to a third party with an economic cut off of 30 June 2022 and cash settlement in September 2022* for their fair value, with no gain or loss on sale, and as a result only a smaller portfolio of delinquent and defaulted loans was retained by the Group.

In October 2022, Funding Circle exercised the call rights associated with the ownership of the unrated junior residual tranches of Small Business Lending Trust 2019-A's bonds in the US. The call option became exercisable as the portfolio and bond liabilities of the SPV had amortised to below the minimum threshold. Funding Circle purchased the loans from the SPV at fair value. The proceeds, cash and other assets of the vehicle were liquidated and used to repay outstanding expenses, and interest and principal on the bond liabilities. As the SPV is consolidated, the net impact on the Group's financial statements was the repayment of the bond liabilities of the vehicle. The Group continues to consolidate 100% of the securitised SME loans, now owned directly by the subsidiary FC Marketplace LLC.

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

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

ii) Scaling up of new products

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

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

As outlined later, the loans are measured at amortised cost. As FlexiPay will continue to become a larger part of the Group's business, this has been disclosed as a separate segment within note 3. As a result the Group has presented FlexiPay under "lines of credit" on the balance sheet and reclassified the comparative which was previously presented in "investment in SME loans (other)" and cash flows have been re-presented within "origination of/cash receipts from lines of credit" within cash flows from operating activities and were previously presented within "origination of/ cash receipts from SME loans (other)" in cash flows from investing activities in the year ended 31 December 2021.

iii) Redemption of investment in associate

In July 2022 an agreement was signed by Funding Circle European Private Fund DAC I to sell the loans held by the fund as part of its strategy to return capital to shareholders in a cost effective manner. The Group received £2.6 million in cash in August 2022 as a final capital distribution and the corresponding investment in associate held by the Group was reduced by this distribution to nil.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

1. Accounting policies continued

Changes in accounting policy and disclosures

The Group has adopted the following new and amended IFRSs and interpretations from 1 January 2022 on a full retrospective basis.

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IFRS 3 – Reference to the Conceptual Framework	Business combinations	1 January 2022
Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use	Property, plant and equipment	1 January 2022
Amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract	Provisions – onerous contracts	1 January 2022

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting years and have not been early adopted by the Group as follows:

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	Presentation of financial statements	1 January 2023
Amendments to IAS 8 – Definition of Accounting Estimates	Accounting policies, changes in accounting estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	Accounting policies	1 January 2023
Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	Deferred tax	1 January 2023

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

Summary of new and amended accounting policies

FlexiPay: Lines of credit

Lending through the FlexiPay product is recognised on the balance sheet within lines of credit. This represents the drawn amount of the facilities. The contractual cash flows represent solely payments of principal and interest ("SPPI") and the business model under which they are held is in order to collect the contractual cash flows resulting in the lines of credit being measured initially at fair value and subsequently at amortised cost. The Group has presented FlexiPay under "lines of credit" in the balance sheet and reclassified the comparative which was previously presented in "investment in SME loans (other)" where they were also measured at amortised cost. The origination fee associated with FlexiPay is recognised under IFRS 9 within interest income at the effective interest rate in the consolidated statement of comprehensive income and is recognised over the contractual term of the draw down.

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

The FlexiPay lines of credit are held net of expected credit loss allowances under IFRS 9, the methodology and definitions of which align to the existing Group accounting policy on impairment of financial assets held at amortised cost with the exception of being assessed at the available line of credit level, estimating the utilisation of the line of credit to the estimated point of default and are detailed further within note 16. Additionally, the Group assesses the expected credit loss allowance in relation to undrawn lines of credit, estimating the probability of default, loss given default and exposure at default in relation to these lines of credit were they to be drawn. This has resulted in a £0.3 million (2021: £nil) loss allowance recognised within other liabilities in note 15.

1. Accounting policies continued

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

Following the call option being exercised on the UK and one of the US securitisation vehicles and the repayment of the warehouse borrowings in 2021 and 2022, some of the SME loans were purchased from the vehicles and are held directly in Funding Circle Limited and Funding Circle Marketplace LLC. These loans continue to be held at FVTPL as the business model under which they are held remains to sell the loans. They continue to be presented within SME loans (securitised) and SME loans (warehouse) representing the legacy nature of the loans.

Certain SME loans are originated by the Group under the business model of selling onwards, and are therefore measured initially and subsequently at FVTPL. These loans are presented within SME loans (other) alongside loans held at amortised cost and can be distinguished in note 16.

Summary of existing accounting policies

Basis of consolidation

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Structured entities are entities that are designed so that their activities are not governed by voting rights. In assessing whether the Group has power over such entities, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The Group applies the acquisition method to account for business combinations. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Acquisition-related costs are recognised in profit or loss as incurred. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Foreign currency translation

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the prevailing rate at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Presentation currency

These consolidated financial statements are presented in GBP sterling, which is the Group's presentation currency.

All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the prevailing rate at the reporting date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the prevailing rate at the reporting date.

Segment reporting

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is the function responsible for allocating resources and assessing performance of the operating segments, has been identified as the Global Leadership Team that makes strategic decisions. For each identified operating segment, the Group has disclosed information for the key performance indicators that are assessed internally to review and steer performance in the Strategic Report.

Transactions between segments are on an arm's length basis in a manner similar to transactions with third parties.

Exceptional items

Exceptional items are the items of income or expense that the Group considers are material, one-off in nature and of such significance that they merit separate presentation in order to aid the reader's understanding of the Group's financial performance. Such items would include profits or losses on disposal of businesses; transaction costs; acquisitions and disposals; major restructuring programmes; significant goodwill or other asset impairments; and other particularly significant or unusual items (see note 5).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

1. Accounting policies continued

Income recognition

Fee income is recognised in line with IFRS 15 which provides a single, principles-based five-step model to be applied to all contracts with customers:

1) identify the contract with the customer;

2) identify the performance obligations in the contract, introducing the new concept of "distinct";

3) determine the transaction price;

4) allocate the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis; and

5) recognise income when (or as) the entity satisfies its performance obligation.

Fee income earned for the arrangement of loans is classified as transaction fees and is a cost of the borrower except for government-guaranteed CBILS loans which were a cost to the government. The contract signed by the borrower and related terms are clearly identifiable. The performance obligation in the contract is considered to be the funding of the loan through the platform and the transaction price is clearly stated in the borrower's contract. Fees are recognised immediately once loans are fully funded and after the loans are accepted by the borrowers. At this point the performance obligation has been met, there are no clawback provisions and the fee is recognised. Such fees are automatically deducted from the amount borrowed (or subsequently invoiced in the case of government-guaranteed CBILS loans).

Fee income earned from referrals to partner institutions is classified as transaction fees and is a cost to the partner institution. There are contracts in place with partner institutions with clearly identifiable terms. The performance obligation in the contract is considered to be the referral by the Group and subsequent funding of the referred loan by the partner institution and the transaction price is clearly stated in the referral agreement. Fees are recognised once the referred loan has been funded by the partner institution and accepted by the referred borrower. At this point the performance obligation has been met and there are no significant clawback provisions.

Fee income earned from servicing third party loans is classified as servicing fees and is a cost of the investor, except in the case of the first year of servicing fees related to CBILS loans, where the government paid the cost. It comprises an annualised fee representing a percentage of outstanding principal. The contractual basis for the servicing fee and transaction price is based on the terms and conditions agreed by investors to the lending platform. The performance obligation is servicing the loans and allocating repayments of the loan parts to the respective lenders. The transaction price is allocated as a percentage of the outstanding principal balance, representing the outstanding performance obligation. Fees are recognised on a monthly basis upon repayment of loan parts. Due to the conditions of the loans, there are no partially completed contracts at the balance sheet date and no advance payments from customers.

Other fees include excess premium earned from arrangements to buy back defaulted loans from certain institutional investors and income earned on certain bought back loans. Other fees also includes income from collections charges levied on the successful recovery of defaulted loans. These are recognised as services are performed.

Net income includes the following elements under which the recognition criteria of IFRS 9 and not IFRS 15 are applied:

Interest income includes:

- interest income recognised on assets held at amortised cost under the effective interest rate method including FlexiPay.

Investment income includes:

- interest income from SME loans and investments in trusts that the Group holds on balance sheet.

Investment expense includes:

- interest payable on funds borrowed to finance the acquisition of underlying loan investments;
- interest payable on bond liabilities held on balance sheet;
- amortisation of costs associated with the issuing of bonds and the credit facility; and
- gains/losses from changes in fair value of interest hedging instruments.

Fair value gains/losses includes:

- gains/losses from changes in the fair value of financial assets and liabilities held on balance sheet.

Net income recorded in the financial statements is generated in the UK, the US, Germany and the Netherlands. All fees are calculated based on the above income recognition policy.

1. Accounting policies continued

Administrative expenses

Administrative expenses are recognised as an expense in the statement of comprehensive income in the period in which they are incurred on an accruals basis.

Share-based payments

The Group operates a number of equity-settled share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options and shares) of the Company. The fair value of the employee services received in exchange for the grant of the options and shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options and shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, net income, earnings per share and remaining an employee of the Group over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimate of the number of options and shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares or utilises shares that have been purchased in the market. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options and shares over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in investment in subsidiary undertakings, with a corresponding credit to equity in the Parent entity (the "Company") accounts.

Pension obligations

The Group operates a defined contribution pension scheme for employees in the UK and US. The schemes are pension plans under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. Contributions payable to the Group's pension scheme are charged to the statement of comprehensive income in the year to which they relate. The Group has no further payment obligations once the contributions have been paid.

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group has established transfer pricing policies and ensures mechanisms are in place in ensuring subsidiaries receive an appropriate tax rate and base. It establishes provisions, where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred tax assets for unused tax losses, tax credits and deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for any deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the year-end date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax balances are not discounted.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

1. Accounting policies continued

Dividends

Dividends are recognised when they become legally payable, in accordance with the Companies Act 2006.

Intangible assets

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. Useful lives and amortisation methods are reviewed at the end of each annual reporting period, or more frequently when there is an indication that the intangible asset may be impaired, with the effect of any changes accounted for on a prospective basis. Amortisation commences when the intangible asset is available for use. The residual value of intangible assets is assumed to be zero.

Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the licence period, which is up to five years as at 31 December 2022.

Capitalised development costs

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design, build and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the build of the platform products so that they will be available for use;
- management intends to complete the build of the platform products for use within the Group;
- there is an ability to use the platform products;
- it can be demonstrated how the platform products will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the platform products are available; and
- the expenditure attributable to the platform products during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee and contractor costs. The capitalisation of employee costs is based on the amount of time spent on specific projects which meet the criteria as a proportion of their total time, and this proportion of their salary-related costs is attributed to the applicable projects.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over their estimated useful lives, ranging from three to five years.

Other intangibles

Other intangibles relate to the technology platform and customer relationship (representing fees due on contracted loans expected to be realised in the foreseeable future) acquired on a business combination. These costs are amortised over their estimated useful lives, which do not exceed three years

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	1–3 years
Furniture and fixtures	3–5 years

Leasehold improvements that qualify for recognition as an asset are measured at cost and are presented as part of property, plant and equipment in the non-current assets section on the balance sheet. Depreciation on leasehold improvements is calculated using the straight-line method over the lease term.

1. Accounting policies continued

Impairment of tangible and intangible assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this was the case, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

At inception of a contract, the Group assesses whether or not a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When a lease is recognised in a contract the Group recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable;
- variable lease payments based on an index or a rate, initially measured using the index or rate at the commencement date; and
- amounts expected to be payable by the Group under residual value guarantee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, which is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses an approach taking the risk-free interest rate adjusted for credit risk for leases held by Funding Circle Holdings plc; and
- makes adjustments specific to the lease for term, country and currency.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and reducing it by the lease payments made. The lease liability and right-of-use asset are remeasured when there is a lease modification.

Lease payments are allocated between principal and finance cost The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Extension and termination options are included in a number of property leases in the Group. Management considers the facts and circumstances that may create an economic incentive to exercise an extension or termination option in order to determine whether the lease term should include or exclude such options. Extension or termination options are only included within the lease term if they are reasonably certain to be exercised in the case of extension options and not exercised in the case of termination options.

Considerations include:

- if leasehold improvements are expected to have significant value at the end of the lease term,
- expected costs or business disruption as a result of replacing a lease; and
- significant penalties incurred in order to terminate.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

1. Accounting policies continued

Leases continued

Lease terms are reassessed if the option is exercised or if a significant event occurs which impacts the assessment of reasonable certainty.

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

When the Group is an intermediate lessor, entering into a sublease, it accounts for the head lease and the sublease separately The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognised on a straight-line basis over the lease term and the Group retains the right-of-use asset deriving from the head lease and the lease liability on the balance sheet.

Amounts due from lessees under finance leases are recognised as receivables equivalent to the Group's net investment in the lease and the right-of-use asset from the head lease is derecognised. Any difference resulting from the derecognition of the right-of-use asset and recognition of the net investment in the sublease is recognised in the consolidated statement of comprehensive income. The head lease liability remains on the balance sheet and interest expense continues to be recognised, while interest income is recognised from the sublease.

Consolidation of special purpose vehicles ("SPVs")

Subsidiaries are those entities, including structured vehicles, over which the Group has control The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

The Group assesses whether it controls SPVs and the requirement to consolidate them under the criteria of IFRS 10. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying assets and raising debt on those assets which is used to fund the Group) and uses this control to obtain a variable return (for example, retaining the residual risk on the assets). Structures that do not meet these criteria are not treated as subsidiaries and the assets are derecognised when they are sold

Where the Group manages the administration of its securitised assets and is exposed to the risks and rewards of the underlying assets through its continued investment or where the Group does not retain a direct ownership interest in an SPE, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost. This is adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the consolidated statement of comprehensive income. The Group's share of movements in other comprehensive income of the investee is recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an indication that the investment in the associate is impaired. If there is such an indication, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

1. Accounting policies continued

Financial instruments

Financial assets

The Group determines the classification of its financial assets at initial recognition. The requirements of IFRS 9 for classification and subsequent measurement are applied, which require financial assets to be classified based on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset:

- financial assets are measured at amortised cost if they are held within a business model, the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest;
- financial assets are measured at fair value through other comprehensive income ("FVTOCI") if they are held within the business model defined as "held to collect and sell", the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest; and
- financial assets that do not meet the criteria to be amortised cost or FVTOCI are measured at fair value through profit or loss ("FVTPL"). In addition, the Group may, at initial recognition, designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The purchase of any credit-impaired assets is also at fair value after any impairment.

Except for certain investments in SME loans as described below, the Group does not recognise on its balance sheet loans arranged between borrowers and investors as it is not a principal party to the contracts and is not exposed to the risks and rewards of these loans.

With the exception of investment in trusts and co-investments, SME loans (warehouse), certain SME loans (other) and SME loans (securitised), all financial assets are held to collect contractual cash flows.

The five types of SME loans held are as follows:

i) SME loans (warehouse)

During the warehouse phase of the securitisation programme, the SME loans originated using both the Group's cash and amounts borrowed under credit facilities were held on the Group's balance sheet. In 2021 these were transferred into other FC entities and the credit facilities repaid and continue to be presented as SME loans (warehouse) to represent their legacy nature. These SME loans have been classified as financial assets at fair value through profit or loss because all such loans are acquired principally for selling in the short term and the collection of interest is incidental They are initially measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

ii) SME loans (securitised)

Under risk retention regulations the Group is required to retain at least 5% of the bonds issued by the securitisation SPV.

Retaining a significant proportion of the residual

Whilst the Group is required to retain 5% of the overall bond issuance, where the Group holds a significant proportion of the unrated bonds (referred to as the "residual"), the Group consolidates the securitisation SPV as it considers that the risks and rewards of ownership continue to reside with the Group. As a result the underlying SME loan book held in the SPV is recognised on balance sheet along with the bond liabilities to third parties. They are initially measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

Selling a significant portion of the residual

Where the Group sells a significant portion of the residual, the Group may no longer be deemed to retain the majority of the risks and rewards of ownership and the Group would deconsolidate the securitisation SPV. The Group would subsequently apply the derecognition rules of IFRS 9 to the investment in SME loans. Cash on the sale of the Group's investment in the residual is treated as an investing activity.

Exercising call rights associated with the residual

In certain vehicles the residual comes with call rights attached that become exercisable as the portfolio and bond liabilities of the SPV amortise to below a minimum threshold. The calling of the vehicle allows the residual holder to purchase the remaining loans from the SPV and use the proceeds and the remaining assets of the vehicle to repay bond liabilities. When the Group has exercised its call rights and purchased loans from and SPV, subsequently held directly by subsidiaries of the Group, these loans continue to be referred to as SME loans (securitised) based on the legacy nature of the loans.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

1. Accounting policies continued

Financial instruments continued

Financial assets continued

iii) SME loans (other)

The Group has originated PPP loans using the SBA's PPPLF facility which are held on balance sheet. Additionally the Group holds investments in certain SME business loans as a result of a commercial arrangements with institutional investors and in certain circumstances the Group also buys back loans from investors.

These loans are included in SME loans (other) (see note 12) and are classified as amortised cost (as they are held solely to collect principal and interest payments) and are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. PPP loans are fully guaranteed by the SBA.

SME loans (other) additionally includes loans temporarily funded by the Group in relation to the relaunch of commercial loans which are classified as financial assets at fair value through profit or loss and are held with the intention of selling on to investors. They are initially measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

iv) Lines of credit

The accounting policy and description is detailed under "FlexiPay: Lines of credit" in the summary of new and amended accounting policies.

v) Investment in trusts and co-investments

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

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

Investments in trusts are classified at fair value through profit and loss. They are initially recognised at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

The Group recognises transaction fee income on origination of loans within the trust and service fee income on the assets within the trust, eliminating its proportional ownership share of the service fees. A scheme lender fee is charged in relation to the origination of CBILS and RLS loans and investment income is recognised in relation to returns on the investment

Other financial assets

Financial assets recognised in the balance sheet as trade and other receivables are classified as amortised cost. They are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Net investments in sublease receivables are recognised as other receivables representing the net present value of the lease payment receivable. Interest is recognised within finance income in the statement of comprehensive income.

Cash and cash equivalents are classified as amortised cost with the exception of money market funds that are classified as FVTPL. Cash and cash equivalents include cash in hand, deposits held at call with banks, money market funds and other short-term highly liquid investments with original maturities of three months or less. The carrying amount of these assets approximates to their fair value.

Impairment of financial assets held at amortised cost

The Group applies the impairment requirements of IFRS 9. The IFRS 9 impairment model requires a three-stage approach:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ("ECLs") (that is, expected losses arising from the risk of default in the next 12 months) are recognised and interest income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit-impaired. For these assets, lifetime ECLs (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised, and interest income is still calculated on the gross carrying amount of the asset. The Group assumes there has been a significant increase in credit risk if outstanding amounts on the financial assets exceed 30 days, in line with the rebuttable presumption per IFRS 9 at which point the assets are considered to be stage 2.

1. Accounting policies continued

Financial instruments continued

Financial assets continued

Impairment of financial assets held at amortised cost continued

- Stage 3 consists of financial assets that are credit-impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For these assets, lifetime ECLs are also recognised, but interest income is calculated on the net carrying amount (that is, net of the ECL allowance). The Group defines a default, classified as stage 3, as an asset with any outstanding amounts exceeding a 90-day due date, which reflects the point at which the asset is considered to be credit-impaired.
- In some circumstances where assets are bought back by the Group, the financial asset associated with the purchase meets the definition of purchased or originated credit-impaired ("POCI"), and impairment is therefore based on lifetime ECLs.

The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost and recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the financial assets expire or the Group has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients.

The Group derecognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Financial liabilities

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest-bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Bank borrowings

Bank borrowings (drawdowns under the credit facilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments

Interest rate caps were in place to partially mitigate the floating rate interest rate risk associated with drawn amounts from borrowing facilities and risk associated with floating rate ABS bond liabilities consolidated into the Group. The derivatives are recognised initially at fair value reflecting the time value implicit in the premium paid and are subsequently measured at fair value with gains and losses recognised in profit or loss. See note 16 for details of interest rate risk.

Bonds

Bonds represent the bond liabilities which the Group must pay to the bond holders from the cash flows generated from the SME loans (securitised) held on balance sheet. The liability excludes any amount of bonds that the Group has retained as these are eliminated upon consolidation.

IFRS 9 permits a company to elect to fair value the bond liabilities where there is an accounting mismatch. In the Group's case the associated assets generating the cash flows to pay the bonds are the SME loans (securitised) which are measured at fair value through profit and loss.

As the cash flows from the SME loans are used to repay the rated bond tranches in advance of the unrated bonds, the Group does not consider there to be a significant accounting mismatch as default levels impact the unrated bonds first. Therefore the rated bonds are measured at amortised cost. However, as the unrated bonds are most affected by fair value movements in the SME loans, the Group has elected to measure the unrated tranches of bonds at fair value through profit and loss to eliminate the accounting mismatch. Following the unwind of the UK SPV entity during the year ended 31 December 2022, there are no externally held bond liabilities measured at FVTPL remaining on a consolidated Group basis.

See note 16 for details of the fair value methodology and interest rate risk.

Transaction costs associated with the issuance of bonds are deferred to the balance sheet and recognised over the lifetime of the bonds using the effective interest rate method.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

1. Accounting policies continued

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Loan repurchases

Loan repurchase contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Loan repurchase contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the contract. The liability is subsequently measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation. The expected credit loss model is used to measure and recognise the financial liability (as further detailed in note 15).

Share capital

Ordinary shares are classified as equity where their terms include no contractual obligation to transfer cash or another financial asset to another entity.

Earnings/(loss) per share

The Group presents basic and diluted earnings/(losses) per share ("EPS") for its ordinary shares. Basic and diluted EPS are calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding shares held as own shares in the Group's Employee Benefit Trusts.

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

Shares held by the Employee Benefit Trust and Share Incentive Plan Trust

The Company has established an offshore Employee Benefit Trust ("EBT") and an onshore Share Incentive Plan ("SIP") Trust.

The EBT and SIP Trust provide for the issue of shares to Group employees principally under share option schemes and SIP respectively. The Group has control of the EBT and SIP Trust and therefore consolidates the Trusts in the Group financial statements. The Group has commenced the purchase of own shares in the market during the financial year in order to satisfy the exercise of employee share option schemes. Shares which are purchased are recognised at cost and are treated as a deduction to shareholders' equity. No gain or loss is recognised in the income statement on the purchase or utilisation of equity shares.

Reserves

Foreign exchange reserve

The foreign exchange reserve represents the cumulative foreign currency translation movement on the assets and liabilities of the Group's international operations at year-end exchange rates and on the profit and loss items from average exchange rates to year-end exchange rates.

Share options reserve

The share options reserve represents the cumulative charges to income under IFRS 2 Share-based Payments on all share options and schemes granted, net of share option exercises. The costs are transferred to retained earnings when options are exercised.

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Critical judgements

Consolidation and deconsolidation of special purpose vehicles ("SPVs") and investment in trusts and co-investments (note 16)

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

2. Critical accounting judgements and key sources of estimation uncertainty continued

Critical judgements continued

Consolidation and deconsolidation of special purpose vehicles ("SPVs") and investment in trusts and co-investments (note 16) continued

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

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

Loans originated through the platform

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

Key sources of estimation uncertainty

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

Fair value of financial instruments (note 16)

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

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

Since 31 December 2021 the assumptions related to estimating fair value have been revised to reflect the observed actual performance of SME loans (securitised) and a revision to the timing of the assumed defaults to occur later in light of the observed resilience of the loans performance and noting that the economic environment may lead to a later, more gradual but longer lasting stress than the sooner and sharper stress previously expected. Additionally, recoveries have been observed to have performed more favourable to previous stress assumptions and expectations have been revised upwards. The combination of favourable observed performance, higher recoveries and later defaults on an amortising pool of loans has led to a lower lifetime cumulative default expectation and a higher relative estimation of fair value.

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

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

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

2. Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

Fair value of financial instruments (note 16)

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

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
SME loans (securitised)	45.8	Lifetime cumulative default rate as % of original	US: 14.6% and 17.1%[1] UK: 6.9%[1]	A change in the lifetime cumulative default rate would have the following impact: US SPV1[1]: +68/-17 bps would decrease/increase fair value by £(0.8) million/£0.3 million respectively. US SPV2[1]: +127/-34 bps would decrease/increase fair value by £(1.8) million/£0.6 million respectively. UK: +36/-36 bps would decrease/increase fair value by £(0.4) million/£0.4 million respectively.
Investments in Trusts and co-investments	28.7	Lifetime cumulative default rate as % of original	Blended: 16.0%	A change in the lifetime cumulative default rate by +230/-480 bps would decrease/increase fair value by (£0.8) million and £1.8 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 remaining and legacy securitisation vehicles. Separate sensitivities to default rates for the US securitisation vehicles represent the respective seasoning of the loans and the different reasonably possible range of outcomes. US SPV2 default definition is "synthetic default" being 90+days past due based on original contractual terms including where borrowers became 90+ days late due to going on approved forbearance measures such as payment holidays. UK and US SPV1 default definition is based on "contractual default" definition of 90+ days past due based on current contractual terms which may have been revised since the original contract. The UK and US SPV1 default definition was previously aligned to the US but amended after the loans were sold from the SPV, driving the divergence in lifetime expected default rates presented between the SPVs.

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

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
SME loans (securitised)	45.8	Risk-adjusted discount rate	US: 15.1% UK: 18.5%	A change in the discount rates by +/-200 bps would decrease/increase fair value by £0.8 million/£(0.8) million respectively.
Investments in Trusts and co-investments	28.7	Risk-adjusted discount rate	7.5% to 20.3%	A change in the discount rate by +200/-200 bps would decrease/increase fair value by £1.0 million/£(1.0) million respectively.

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

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

3. Segmental information

IFRS 8 Operating Segments requires the Group to determine its operating segments based on information which is used internally for decision making. Based on the internal reporting information and management structures within the Group, it has been determined that there are four operating segments, three of which are loans businesses arranged geographically consistent with the prior year and the fourth which is a line of credit business, FlexiPay, based in the United Kingdom. Reporting on this basis is reviewed by the Global Leadership Team ("GLT") which is the chief operating decision maker ("CODM"). The GLT is made up of the Executive Directors and other senior management and is responsible for the strategic decision making of the Group.

The four reportable segments are as shown in the table below. The other segment includes the Group's businesses in Germany and the Netherlands. In light of the increasing prominence of new products such as FlexiPay, an additional segment is reported to the CODM related to FlexiPay and has been disclosed separately for the first time for the year to 31 December 2022.

The GLT measures the performance of each segment by reference to a non-GAAP measure, adjusted EBITDA, which is defined as profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA"), and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items (see note 5). Together with operating profit/loss, adjusted EBITDA is a key measure of Group performance as it allows better comparability of the underlying performance of the business. The segment reporting, including Adjusted EBITDA, excludes the impact of the Group's transfer pricing arrangements as this is not information presented to, or used by, the CODM in decision making or the allocation of resources.

Net income

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

Segment (loss)/profit

	31 December 2022					31 December 2021				
	Loans			FlexiPay	Total	Loans			FlexiPay	Total
	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
Adjusted EBITDA	**11.7**	**(3.7)**	**2.8**	**(4.0)**	**6.8**	61.9	28.4	1.5	–	91.8
Depreciation and amortisation	(11.7)	(5.2)	(0.1)	–	(17.0)	(9.7)	(4.1)	(0.1)	–	(13.9)
Share-based payments and social security costs	(3.9)	(0.8)	–	–	(4.7)	(7.6)	(1.3)	–	–	(8.9)
Foreign exchange losses	0.2	–	–	–	0.2	(0.3)	(0.6)	–	–	(0.9)
Exceptional items (note 5)	–	–	–	–	–	–	(3.9)	–	–	(3.9)
Operating (loss)/profit	**(3.7)**	**(9.7)**	**2.7**	**(4.0)**	**(14.7)**	44.3	18.5	1.4	–	64.2

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

4. Operating expenses

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

Auditors' remuneration

	31 December 2022 £m	31 December 2021 £m
Audit fees		
– Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**0.5**	0.5
– Fees payable to the Company's auditors and its associates for the statutory audit of the financial statements of subsidiaries of the Company	**0.3**	0.3
Total audit fees	**0.8**	0.8
Non-audit service fees		
– Audit-related assurance services	**0.3**	0.2
– Other non-assurance services	**0.1**	0.1
Total non-audit service fees	**0.4**	0.3

5. Exceptional items

	31 December 2022 £m	31 December 2021 £m
Impairment of non-financial assets (note 11)	–	3.9
Total	–	3.9

5. Exceptional items continued

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

During the year to 31 December 2021 certain floors of the San Francisco office were sublet to third parties for the remainder of the term of the head lease for an amount lower than the head lease rental. As a result the sublease was determined to be a finance lease which resulted in the right-of-use asset being derecognised and a net investment in sublease recognised on the balance sheet. The difference between the carrying value of the right-of-use asset and the net investment in the sublease was £3 3 million and has been recorded in the statement of comprehensive income as an impairment under exceptional items. Additionally it was determined that the fixed assets associated with the office were impaired in full as they were no longer used by the Group resulting in impairment of £0.6 million. There was no cash movement in relation to the impairment.

In 2020, the Group restructured the German and Dutch (Other) businesses to focus on referring loans it originates to local lenders. This restructuring resulted in one-off costs comprising redundancy costs and a related share-based payment credit and impairment on right-of-use assets. Cash payments associated with these items totalled £0.8 million in the previous year ended 31 December 2021. See note 15 for movement in associated provisions and note 22 for cash flow.

6. Employees

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

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

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

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

	31 December 2022 £m	31 December 2021 £m
Wages and salaries	**72.2**	61.4
Social security costs	**7.6**	6.2
Pension costs	**1.9**	1.8
Share-based payments	**4.7**	8.9
	86.4	78 3
Contractor costs	**12.0**	7.6
Less: capitalised development costs	**(12.5)**	(8.2)
Employment costs net of capitalised development costs	**85.9**	77.7

7. Net finance income/(costs)

	31 December 2022 £m	31 December 2021 £m
Interest receivable	**2.3**	0.1
Total finance income	**2.3**	0.1
Interest on lease liabilities	**(0.9)**	(1.1)
Total finance costs	**(0.9)**	(1.1)
Net finance income/(costs)	**1.4**	(1.0)

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

8. Income tax (credit)/charge

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

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

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

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

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

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

8. Income tax (credit)/charge continued

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

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

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

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

In determining the amount of losses to recognise as deferred tax assets the Group has used the forecasts applied in the Parent Company impairment testing with regards to the investment in the US business, detailed in note 1 of the Company financial statements on page 182. It has then applied probability weightings to those five-year forecasts the further out it projects to reflect greater levels of uncertainty with limited recognition beyond this point.

The key assumptions are:

- cumulative annual revenue growth rate of 15%; and
- the impact of transfer pricing arrangements within the Group are considered.

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

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

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

Unrecognised deferred tax

	31 December 2022 £m	31 December 2021 £m
Property, plant and equipment	**17.4**	10.3
Carry forward losses	**133.3**	257.3
Deferred stock options	**18.5**	15.7
US R&D credit	**2.3**	2.1
US fair value adjustments	**47.1**	46.3
Other	**0.3**	3.7
Unrecognised deferred tax[1]	**218.9**	335.4

1 Balances presented in table above are gross timing differences and are not tax effected

Based on the temporary differences, there are total unrecognised deferred tax assets of £50.1 million (2021: £92.1 million).

The Group has unrelieved tax losses of £177.0 million (2021: £257.3 million) that are available for offset against future taxable profits. Of these, there are £133.3 million (2021: £257.3 million) of unrecognised tax losses for deferred tax purposes.

There are £81.7 million of losses carried forward in the US of which £14.8 million will expire in 2035, £23.7 million will expire in 2036 and the remaining balance of £43.2 million have no expiry period. There are £96.1 million of German losses (of which £48.3 million relate to federal losses and £47.8 million relate to trade tax losses) that can no longer be used as the tax residence of the German-incorporated entities has changed to the UK. There are £97.3 million losses which relate to the UK.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

8. Income tax (credit)/charge continued

Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include the geographic location of the Group's earnings, the tax rates in those locations, changes in tax legislation and the use of brought forward tax losses. The calculation of the Group's total tax charge involves a degree of estimation and judgement with respect to the recognition of any deferred tax asset.

9. (Loss)/earnings per share

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

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

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

	31 December 2022	31 December 2021
(Loss)/profit for the year (£m)	**(6.9)**	61 2
Basic weighted average number of ordinary shares in issue (million)	**348.6**	351.5
Basic (loss)/earnings per share	**(2.0)p**	17 4p
(Loss)/profit for the year before exceptional items (£m)	**(6.9)**	65.1
Basic weighted average number of ordinary shares in issue (million)	**348.6**	351.5
Basic (loss)/earnings per share before exceptional items	**(2.0)p**	18.5p
(Loss)/profit for the year (£m)	**(6.9)**	61.2
Diluted weighted average number of ordinary shares in issue (million)	**379.5**	381.7
Diluted (loss)/earnings per share	**(1.8)p**	16.0p
(Loss)/profit for the year before exceptional items (£m)	**(6.9)**	65.1
Diluted weighted average number of ordinary shares in issue (million)	**379.5**	381.7
Diluted (loss)/earnings per share before exceptional items	**(1.8)p**	17.1p
Weighted average number of ordinary shares in issue (million)	**348.6**	351.5
Effect of dilutive share options (million)	**30.9**	30.2
Diluted weighted average number of ordinary shares in issue (million)	**379.5**	381.7

10 Intangible assets

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

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

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

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

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

Reconciliation of amount recognised in the balance sheet

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

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

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

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

Reconciliation of amount recognised in the balance sheet continued

During the previous year ended 31 December 2021, certain other right-of-use assets related to the US San Francisco office were sublet in a finance sublease. As a result the right-of-use asset was derecognised and a net investment in sublease was recognised within other receivables. During the previous year the right-of-use asset related to the Netherlands business was exited along with the corresponding head lease liability. The carrying values of the right-of-use asset and lease liability at the point of derecognition were £0.4 million. See note 5 for related exceptional items.

Lease liabilities

Amounts recognised on the balance sheet were as follows:

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

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

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

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

A maturity analysis illustrating the undiscounted contractual cash flows of lease liabilities is included within the liquidity risk disclosure within note 16.

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

12. Investment in SME loans

	31 December 2022 £m	31 December 2021 £m
Non-current		
SME loans (other) – amortised cost	**24.8**	74.2
Investment in trusts and co-investments – FVTPL	**28.7**	39.1
Total non-current	**53.5**	113.3
Current		
Lines of credit – amortised cost	**16.0**	1.6
SME loans (other) – FVTPL	**20.9**	–
SME loans (warehouse) – FVTPL	**2.4**	3.2
SME loans (securitised) – FVTPL	**45.8**	148.1
Total current	**85.1**	152.9
Total	**138.6**	266.2

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

13. Trade and other receivables

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

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

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

No trade receivables were overdue or impaired.

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

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

14. Trade and other payables

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

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

15. Provisions and other liabilities

	Dilapidation £m	Loan repurchase £m	Restructuring[1] £m	Other £m	Total £m
At 1 January 2021	0.9	5 2	1.1	2.7	9.9
Exchange differences	–	(0.3)	(0.1)	0.2	(0.2)
Additional provision/liability	–	–	–	1 1	1.1
Amount utilised	–	(2.6)	(0.8)	(0 2)	(3.6)
Amount reversed	(0.3)	(0.1)	–	(2.7)	(3.1)
At 31 December 2021	0.6	2.2	0.2	1.1	4 1
Exchange differences	–	0.1	–	0.1	0.2
Additional provision/liability	0.5	–	–	0.5	1.0
Amount utilised	–	(0.9)	(0.2)	(0.2)	(1.3)
Amount reversed	–	(0.9)	–	(1.0)	(1.9)
At 31 December 2022	**1.1**	**0.5**	**–**	**0.5**	**2.1**

1 Restructuring provision is in relation to reorganisation of the US German and Dutch businesses, see note 5 Other provisions includes provisions for operational buybacks £0 3 million (2021: £nil) of expected credit loss impairment allowance related to undrawn FlexiPay lines of credit is also included within other.

15. Provisions and other liabilities continued

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

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

Loan repurchase liability

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

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

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

The Group defines a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date, which reflects the point at which the loan is considered to be credit impaired.

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

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

	Performing: 12-month ECL £m	Underperforming lifetime ECL £m	Non-performing: lifetime ECL £m	Total £m
At 1 January 2021	2.2	1.5	1.5	5.2
Exchange differences	(0.1)	(0.1)	(0.1)	(0.3)
Liability against loans transferred between stages	(0.2)	(0.5)	1.7	1.0
Amounts utilised	–	–	(2.6)	(2.6)
Loans repaid	(0.9)	(0.4)	(0.6)	(1.9)
Change in probability of default	0.4	(0.1)	0.5	0.8
At 31 December 2021	1.4	0.4	0.4	2.2
Exchange differences	–	0.1	–	0.1
Liability against loans transferred between stages	(0.1)	(0.2)	0.7	0.4
Amounts utilised	–	–	(0.9)	(0.9)
Loans repaid	(0.9)	(0.1)	(0.2)	(1.2)
Change in probability of default	(0.2)	(0.1)	0.2	(0.1)
At 31 December 2022	**0.2**	**0.1**	**0.2**	**0.5**

Notes forming part of the consolidated financial statements continued

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15. Provisions and other liabilities continued

Loan repurchase liability continued

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

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

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

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

The maximum exposure the Group might have to pay at the balance sheet date if 100% of eligible loans were required to be bought back would be £2.8 million (2021: £10.0 million). This would be dependent on the timing of any eligible loans defaulting. Repayments of eligible loans are no longer reinvested and therefore the final loan is due to expire in December 2024, along with the associated financial guarantees. At 31 December 2022, there is only one portfolio of loans.

16. Financial risk management

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

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

Risk factors

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

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

Principal financial instruments

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

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

Categorisation of financial assets and financial liabilities

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

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

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

Notes forming part of the consolidated financial statements continued

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16. Financial risk management continued

Principal financial instruments continued

Categorisation of financial assets and financial liabilities continued

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

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

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

Financial instruments measured at amortised cost

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

Other financial instruments

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

Financial instruments measured at fair value

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

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

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

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

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

16. Financial risk management continued

Financial instruments measured at fair value continued

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

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

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

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

Bonds represent the unrated tranches of bond liabilities measured at fair value through profit and loss (the rated tranches of bonds are measured at amortised cost). The fair value has been estimated by discounting estimated future cash flows in relation to the bonds using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the bonds was £nil at 31 December 2022 (2021: £12.8 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 fair value has been estimated by discounting future cash flows in relation to the trusts using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in trusts and co-investments was £28.7 million at 31 December 2022 (2021: £39.1 million).

The SME loans (other) held at fair value represents loan assets temporarily funded by the Group in relation to the commercial loans and is estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the SME loans (other) was £20.9 million (2021: £nil).

The most relevant significant unobservable inputs relate to the default rate estimate and discount rates applied to the fair value calculation, details of which are set out in note 2 for those with material estimation uncertainty.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

16. Financial risk management continued

Financial instruments measured at fair value continued

Fair value movements on SME loans (warehouse), SME loans (securitised), SME loans (other), investments in trusts and bonds (unrated) are recognised through the profit and loss account in fair value gains/(losses).

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

	SME loans (warehouse) £m	SME loans (securitised) £m	Bonds (unrated) £m	Investment in trusts and co-investments £m	SME loans (other) £m	Trade and other receivables £m
At 1 January 2021	221 8	279.8	(7.8)	21.2	–	0.2
Additions	–	–	–	22.1	–	–
Transfers	0 2	–	–	–	–	(0.2)
Repayments	(58.6)	(150.2)	–	(3.3)	–	–
Disposal	(176.1)	–	–	–	–	–
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	16.3	18.2	(5.0)	(0.9)	–	–
Foreign exchange (loss)/gain	(0.4)	0.3	–	–	–	–
At 31 December 2021	3.2	148.1	(12.8)	39.1	–	–
Additions	–	–	–	6 4	22.6	–
Repayments	(2 8)	(86.8)	16.3	(10.0)	(0.8)	–
Disposal	–	(39.5)	–	–	–	–
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	2.0	14.7	(3.5)	(7.0)	(1.4)	–
Foreign exchange gain	–	9.3	–	0.2	0.5	–
At 31 December 2022	**2.4**	**45.8**	**–**	**28.7**	**20.9**	**–**

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents held at banks.

The Group's maximum exposure to credit risk by class of financial asset is as follows:

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

1 Included within bank borrowings are £22 6 million (2021 £73 2 million) in relation to draw downs on the PPPLF

16. Financial risk management continued

Financial risk factors continued

Credit risk continued

In addition the Group is subject to financial guarantees it has issued to buy back loans detailed in the loan repurchase liability in note 15. The Group's maximum exposure to credit risk on financial guarantees were every eligible loan required to be bought back would be £2.8 million (2021: £10.0 million).

An expected credit loss allowance related to undrawn lines of credit on the FlexiPay product of £0.3 million (2021: £nil) is held within provisions and other liabilities. The Group's maximum exposure to credit risk on the undrawn lines of credit if they were all to be fully drawn would be £41.6 million (2021: £4.2 million).

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

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

Under IFRS 9, the Group is required to provide for loans measured at amortised cost under the expected credit loss ("ECL") model. The impairment related to each loan is based on the ECLs associated with the probability of default of that loan in the next 12 months unless there has been a significant increase in credit risk of that loan since origination. The Group assumes there has been a significant increase in credit risk if outstanding amounts on the loan investment exceed 30 days, in line with the rebuttable presumption per IFRS 9.

The Group defines a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date, which reflects the point at which the loan is considered to be credit impaired. In some circumstances where loans are bought back by the Group, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired ("POCI"); this element of the impairment is therefore based on lifetime ECLs.

Lines of credit utilises the same default definition and probability of default under IFRS 9, however, are assessed based on 12-month probability of default at the overall available line of credit level, estimating the expected utilisation of the line of credit at the estimated point of default. The expected credit loss impairment associated with undrawn lines of credit is disclosed within other liabilities in note 15 and in note 27.

SME loans (other) includes PPP loans funded by the use of the PPPLF. The loans are guaranteed by the US government in the event of default and the loans are anticipated to be forgiven. At the point of default and subsequent collection of the guarantee or point of forgiveness, the loan and the respective borrowings under the PPPLF are extinguished. SME loans (other) also includes loans which have been brought back from investors and are held at amortised cost.

Lines of credit comprises £16.0 million (2021: £1.6 million) of drawn amounts through the FlexiPay product net of expected credit loss impairment, enabling businesses to spread UK invoices or payments over three months with the initial payment made on a borrower's behalf.

The gross principal value of SME loans (other) is £39.6 million (2021: £89.5 million) and drawn lines of credit held at amortised cost is £17.6 million (2021: £1.6 million), totalling £57.2 million (2021: £91.1 million), and an allowance for expected credit losses of £14.8 million (2021: £15.3 million) and £1.6 million (2021: £nil) respectively, totalling £16.4 million (2021: £15.3 million), is held against these loans and drawn lines of credit as detailed below.

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

16. Financial risk management continued

Financial risk factors continued

Credit risk continued

	Performing: 12-month ECL £m	Underperforming: Lifetime ECL £m	Non-performing: Lifetime ECL £m	POCI: Lifetime ECL £m	Total £m
At 1 January 2021	0.1	–	0.4	12.2	12.7
Impairment against additions	0.1	–	–	2.6	2.7
Exchange differences	–	–	–	(0.6)	(0.6)
Impairment against loans transferred from/(to) performing	–	0.3	0.7	–	1.0
Loans repaid	(0.1)	–	–	(0.9)	(1.0)
Change in probability of default or loss given default assumptions	0.5	–	–	–	0.5
At 31 December 2021	**0.6**	**0.3**	**1.1**	**13.3**	**15.3**
Impairment against additions	**0.1**	–	–	**1.1**	**1.2**
Exchange differences	**0.1**	–	**0.1**	**1.0**	**1.2**
Impairment against loans transferred from/(to) performing	**(0.1)**	**0.3**	**0.3**	–	**0.5**
Loans repaid	**(0.3)**	**(0.3)**	**(0.5)**	**(1.2)**	**(2.3)**
Change in probability of default or loss given default assumptions	**0.7**	–	**(0.1)**	**(0.1)**	**0.5**
At 31 December 2022	**1.1**	**0.3**	**0.9**	**14.1**	**16.4**

	Expected credit loss coverage %	Basis for recognition of expected credit loss impairment	Gross lines of credit and SME loans (other) £m	Provision for expected credit loss £m	Net carrying amount £m
As at 31 December 2021					
Performing (due in 30 days or less)	0.7	12-month ECL	75.7	(0.6)	75.1
Underperforming (31–90 days overdue)	100.0	Lifetime ECL	0.3	(0.3)	–
Non-performing (90+ days overdue)	100.0	Lifetime ECL	1.1	(1.1)	–
POCI (90+ days overdue)	95.1	Lifetime ECL	14.0	(13.3)	0.7
		Total	91.1	(15.3)	75.8
As at 31 December 2022					
Performing (due in 30 days or less)	**2.7**	**12 month ECL**	**39.2**	**(1.1)**	**38.1**
Underperforming (31–90 days overdue)	**36.5**	**Lifetime ECL**	**0.7**	**(0.3)**	**0.4**
Non-performing (90+ days overdue)	**43.1**	**Lifetime ECL**	**2.3**	**(0.9)**	**1.4**
POCI (90+ days overdue)	**94.2**	**Lifetime ECL**	**15.0**	**(14.1)**	**0.9**
		Total	**57.2**	**(16.4)**	**40.8**

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

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

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

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

16. Financial risk management continued

Financial risk factors continued

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient financial resources 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

The amounts disclosed in the following tables are the contractual undiscounted cash flows. The liquidity requirements of the bonds are met from cash flows generated by the investment in SME loans (securitised) and the liquidity requirements of bank borrowings are met from cash flows generated by investment in SME loans (warehouse) and SME loans (other).

The maturity analysis of financial instruments at 31 December 2022 and 31 December 2021 is as follows:

At 31 December 2022	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting[2] £m	Carrying amount £m
Financial liabilities							
Trade and other payables	**(12.2)**	–	–	–	**(12.2)**	–	**(12.2)**
Bank borrowings	–	–	**(22.6)**	–	**(22.6)**	–	**(22.6)**
Bonds	**(5.1)**	**(12.5)**	**(6.4)**	–	**(24.0)**	**0.3**	**(23.7)**
Loan repurchase liability[1]	**(0.5)**	–	–	–	**(0.5)**	–	**(0.5)**
Lease liabilities	**(1.7)**	**(5.6)**	**(13.7)**	–	**(21.0)**	**1.2**	**(19.8)**
	(19.5)	**(18.1)**	**(42.7)**	–	**(80.3)**	**1.5**	**(78.8)**

At 31 December 2021	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting[2] £m	Carrying amount £m
Financial liabilities							
Trade and other payables	(15.2)	–	–	–	(15.2)	–	(15.2)
Bank borrowings	–	–	(73.2)	–	(73.2)	–	(73.2)
Bonds	(28.8)	(60.5)	(60.8)	(0.2)	(150.3)	10.0	(140.3)
Loan repurchase liability[1]	(2.2)	–	–	–	(2.2)	–	(2.2)
Lease liabilities	(1.7)	(5.2)	(18.9)	–	(25.8)	1.9	(23.9)
	(47.9)	(65.7)	(152.9)	(0.2)	(266.7)	11.9	(254.8)

1 Financial guarantees provided for in the loan repurchase liability are allocated to the earliest period in which the guarantee could possibly be called.

2 Included within the impact of discounting on bonds is £0.3 million of deferred bond issuance costs (2021: £1.1 million).

Bank borrowings consist of drawn amounts in the US of $27.3 million (2021: $98.7 million) on the PPP Liquidity Facility available from the Federal Reserve Bank at a fixed interest rate of 0.35%.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

16. Financial risk management continued

Financial risk factors continued

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risk arises from open positions in interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

a) Other price risk

The fair value of the SME loans which are held at fair value through profit and loss can fluctuate depending on market pricing of relative interest rates and credit risk. This is reflected in the discount rate used to derive a valuation for the loan assets. A sensitivity to the discount rates used in the valuation of the assets measured at fair value through profit and loss and which are exposed to greater estimation uncertainty is disclosed in note 2.

b) Interest rate risk

The Group is exposed to interest rate risk in relation to financial liabilities through drawn committed borrowing facilities and on bonds and on financial assets through investment in SME loans.

Non-trading interest rate risk

The Group's interest risk on financial instruments is limited to interest receivable on loan note investments, cash and cash equivalent balances and interest on bonds and bank borrowings. The maturities of financial instruments subject to interest rate risk are as follows:

	Less than 3 months		Between 3 months and 1 year		Between 1 and 5 years	
At 31 December	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Fixed rate						
SME loans (other)[2]	**0.9**	–	**0.4**	–	**44.4**	74 2
Investment in trusts and co-investments	**–**	–	**–**	–	**28.7**	39 1
Lines of credit	**16.0**	1.6	**–**	–	**–**	–
SME loans (warehouse)[1]	**0.1**	–	**0.1**	0.1	**2.2**	3.1
SME loans (securitised)[1]	**0.1**	0.2	**4.0**	10.1	**41.7**	137.8
Bank borrowings[2]	**–**	–	**–**	–	**(22.6)**	(73.2)
Bonds[1]	**–**	–	**–**	–	**(23.7)**	(80.2)
Floating rate						
Cash and cash equivalents	**177.7**	224.0	**–**	–	**–**	–
Bank borrowings	**–**	–	**–**	–	**–**	–
Bonds[1]	**–**	–	**–**	–	**–**	(60.1)
	194.8	**225.8**	**4.5**	**10.2**	**70.7**	**40.7**

1 The bonds, SME loans (warehouse) and SME loans (securitised) are classified as current on the balance sheet, reflecting that the position is held to sell. The above table represents the contractual maturities.

2 The fixed rate bank borrowings and SME loans (other) include the Group's drawing of the PPP Liquidity Facility in the US in order to fund PPP loan originations. These are classified as non-current on the balance sheet, and the above table represents the contractual maturities, although the PPP loans could be forgiven by the SBA and the associated liability could be repaid from the proceeds within 12 months of the balance sheet date.

There are no financial assets which are held for a period of over five years.

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

Interest on loan note investments including SME loans (other), SME loans (warehouse), SME loans (securitised), the unleveraged investment in trusts and co-investments, lines of credit, certain bank borrowings (in the US) and bond liabilities (in the US) is fixed until the maturity of the investment, and is not impacted by market rate changes. The level of future interest rate receivable would be similar to that received in the year and the impact of movements in interest rates on the value of the assets is considered immaterial to the Group's overall performance for the year.

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

Interest on cash and cash equivalent balances is subject to movements in base rates. The Directors monitor interest rate risk and note there have recently been significant increases in rates and expectation of future rate rises observed. The Directors believe that any reasonable increase in the base rate would not significantly impact the Group's cash or finance income.

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

16. Financial risk management continued

Financial risk factors continued

Market risk continued

b) Interest rate risk continued

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

Some of the Group's investment in trusts are through warehouse vehicles where the Group is a minority equity investor. The senior borrowing facilities utilised in these vehicles receive interest on borrowings in priority to payments to the equity investors at SONIA plus a margin. As a result of the increase in SONIA and anticipated future increases, the increased borrowing costs have reduced the expected cash returns to the equity investors of the investment held at fair value through profit and loss. The impact is recognised in fair value gains and losses in the statement of comprehensive income. Some, but not all of the vehicles, have interest rate caps or interest rate swaps 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 investments in trusts at 31 December 2022 by £0.1 million.

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

This uncertainty will remain until the Group's contracts that reference LIBOR are amended to reference the alternative benchmark which is complete for the UK and remains ongoing for the US; however, there are no remaining material exposures to USD LIBOR at 31 December 2022.

c) Sensitivity analysis

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the report date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed above, the Group does not have significant exposure to price or cash flow risk and therefore no sensitivity analysis for those risks has been disclosed with the exception of sensitivity to discount rates on SME loans held at fair value through profit and loss within note 2.

d) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the UK pound and the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which income is generated and expenses are incurred.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

The table below sets out the Group's currency exposures from financial assets and liabilities held by Group companies in currencies other than their functional currencies and resulting in exchange movements in the income statement and balance sheet.

	31 December 2022				31 December 2021			
	USD £m	**GBP £m**	**EUR £m**	**Total £m**	USD £m	GBP £m	EUR £m	Total £m
Cash and cash equivalents	**0.2**	**–**	**–**	**0.2**	0.2	–	2.2	2.4
Intra-group assets	**–**	**–**	**1.0**	**1.0**	–	–	–	–
Intra-group liabilities	**(16.5)**	**–**	**(0.8)**	**(17.3)**	(20.8)	(0.1)	(4.0)	(24.9)

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Notes forming part of the consolidated financial statements continued

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16. Financial risk management continued

Financial risk factors continued

Market risk continued

d) Foreign exchange risk continued

The Group assessed the sensitivity to a 10% depreciation and 10% appreciation in pound sterling against the relevant foreign currencies (2021 comparative sensitivities are presented based on 5%). While 5% is the sensitivity rate used when reporting foreign currency risk internally to senior management personnel, in light of recent fluctuations in foreign exchange rates, 10% represents management's current assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis to the income statement includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis illustrates the impact on the foreign currency translation reserve within equity of the retranslation of quasi-equity loans to foreign operations within the Group and net investment in foreign operations of the Group.

The Group's sensitivity to fluctuations in foreign currencies is related to the US dollar and euro amounts held in the Parent Company.

	Appreciation in pound sterling				Depreciation in pound sterling			
At 31 December	**Income statement 2022 £m**	**Equity 2022 £m**	Income statement 2021 £m	Equity 2021 £m	**Income statement 2022 £m**	**Equity 2022 £m**	Income statement 2021 £m	Equity 2021 £m
US dollars	–	**(3.6)**	(1.0)	(3.3)	–	**4.4**	1.1	3.6
Euros	–	**0.6**	(0.1)	0 5	–	**(0.7)**	0.1	(0 5)
	–	**(3.0)**	(1.1)	(2.8)	–	**3.7**	1.2	3.1

Capital management

The Group considers its capital to comprise its ordinary share capital, share premium, foreign exchange reserve, share options reserve and retained earnings. Quantitative detail is shown in the consolidated statement of changes in equity.

The Directors' objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Directors monitor a number of KPIs at both the Group and individual subsidiary level on a monthly basis. As part of the budgetary process, targets are set with respect to operating expenses in order to effectively manage the activities of the Group. Performance is reviewed on a regular basis and appropriate actions are taken as required. These internal measures indicate the performance of the business against budget/forecast and confirm that the Group has adequate resources to meet its working capital requirements

The Group is subject to externally imposed capital requirements by the Financial Conduct Authority but these are lower than internally set requirements. During the period the Group complied with all externally imposed requirements.

Sources of estimation uncertainty and critical judgements that may result in a material adjustment in future periods are outlined in note 2.

17. Share capital

	31 December 2022 Number	**31 December 2022 £**	31 December 2021 Number	31 December 2021 £
Called up, allotted and fully paid				
Ordinary shares of £0.001	**361,303,143**	**361,303**	356,619,718	356,620

During 2022, the Company issued 4,683,425 ordinary shares of £0.001 (2021 £0.001) ranking pari passu with ordinary shares in issue (2021: 3,675,743) in connection with employee share schemes, giving rise to a total share premium of £0.1 million (2021: £0.4 million).

Included in the total number of ordinary shares outstanding are 16,726,515 (2021: 283,786) shares held by the Group's Employee Benefit Trust, which includes 16,471,239 shares (2021: nil) that were purchased during the year (17,660,340 purchased and 1,189,101 utilised to satisfy employee share option plans) and 5,539,201 (2021: 2,984,437) shares held by the Group's Share Incentive Plan Trust.

18. Share premium account

	2022 £m	2021 £m
At 1 January	**293.0**	292.6
Exercise of options – proceeds received	**0.1**	0.4
At 31 December	**293.1**	293.0

19. Foreign exchange reserve

	£m
At 1 January 2021	9.7
Exchange difference on translating the net assets of foreign operations	1.4
At 31 December 2021	11.1
Exchange difference on translating the net assets of foreign operations	5.8
At 31 December 2022	**16.9**

Exchange differences relating to the translation of the net assets of the Group's subsidiaries from their functional currency into the Company's functional currency are recognised directly in the foreign exchange reserves within equity.

20. Accumulated losses

	£m
At 1 January 2021	(98.6)
Transfer of share option costs	1.8
Profit for the year	61.2
At 31 December 2021	(35.6)
Transfer of share option costs	2.6
Purchase of own shares	(8.7)
Loss for the year	(6.9)
At 31 December 2022	**(48.6)**

The transfer of share option costs is in relation to the exercise of share options during the year and their associated costs in the share options reserve which are transferred to (accumulated losses)/retained earnings.

During the year ended 31 December 2022, £8.7 million (2021: £nil) of ordinary shares were purchased by the EBT for the purposes of satisfying employee share option plans. The number of shares purchased was 17.6 million and the average purchase price was £0.50. All shares have a nominal value of £0.001.

21. Share-based payment

The Company operates share schemes for all employees of the Group. The terms of the main current schemes from which the Group's employees benefit are set out below.

Post-IPO employee share plans

Since the Company's admission on the London Stock Exchange to the year ended 31 December 2019, the Company operated a single discretionary share-based long-term incentive plan ("LTIP"). In November 2020, the Company introduced a Share Incentive Plan ("SIP") approved by HMRC, which includes free shares, partnership shares and matching shares. This plan is only relevant for UK-based employees; the LTIP will continue to make awards for non-UK-based employees and employees in senior management positions.

The main features of the LTIP and SIP are set out below.

Post-IPO – LTIP

Form of LTIP Awards

The Board grants awards in the form of restricted stock units at no cost or options to acquire shares at no cost (a nil-cost option).

Performance conditions

LTIP Awards are not currently subject to performance conditions with the exception of LTIP Awards granted to Executive Directors which are subject to performance conditions. Refer to the Remuneration Report for further details.

Any performance condition may be amended or substituted if one or more events occur which cause the Board to reasonably consider that an amended or substituted performance condition would be more appropriate and would not be materially less difficult to satisfy than originally intended.

Vesting and release of LTIP Awards

LTIP Awards granted to employees, excluding Executive Directors, currently vest subject to continued service only ("Time-Based Vesting") in accordance with a vesting schedule set at grant.

LTIP Awards granted to Executive Directors vest at the end of three years subject to achievement of performance conditions. Further details are shown in the Remuneration Report.

The Board may determine at grant that an LTIP Award is subject to an additional holding period following vesting (a "Holding Period"). LTIP Options will be exercisable from the date of vesting or, if applicable, the end of the Holding Period until the tenth anniversary of the grant date, or such earlier date as the Board determines.

Notes forming part of the consolidated financial statements continued

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21. Share-based payment continued

Post-IPO employee share plans continued

Post-IPO – LTIP continued

Cessation of employment

LTIP Options may normally be exercised to the extent vested for a period of six months after ceasing employment or 12 months after death (or such other period as the Board may determine).

Post-IPO – SIP

Form of SIP awards

The Board grants awards in the form of free shares, partnership shares and matching shares.

Performance conditions

There are no performance conditions attached to free shares, partnership shares and matching shares.

Free shares

Under the SIP, UK employees are eligible to receive up to a maximum of £3,600, or 10% of annual salary if less, of free shares per tax year. Free shares will be awarded annually with a forfeiture period of two years and a holding period of three years.

Matching shares

UK employees are invited to buy partnership shares from pre-tax salary with a maximum investment in each tax year of £1,800, or 10% of annual salary if less. Partnership shares are purchased every month. Employees can withdraw partnership shares from the SIP at any time although there are tax advantages if the shares are retained in the SIP for at least three years.

Participants are awarded one matching share for every one partnership share they purchase. There are tax advantages if the matching shares are retained in the SIP for at least three years.

Whilst employed by the Company, a participant will forfeit a corresponding number of matching shares if they choose to transfer partnership shares out of the SIP within three years of the date of purchase.

Under normal circumstances, if a participant leaves the Company before the second anniversary of the date of award, they will forfeit their matching shares. If they leave between two and three years of the date of award, they retain their matching shares but those shares must be removed from the SIP and any tax advantages are lost. If a participant leaves under special circumstances, they will retain all of their matching shares, regardless of how long they have been held in the SIP.

Pre-IPO employee share plans

EMI Options

Prior to June 2014, the Company issued options to UK subsidiary undertakings' employees under the EMI Options Scheme. Since then, the Company is not eligible to issue under the scheme.

Unapproved Options

The Company has an Unapproved Options Scheme for all employees of the Group. In accordance with standard vesting terms, the full award will vest four years after the vesting start date, with 25% vesting on the first anniversary of the vesting date and 6.25% every three months thereafter. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

US Options Scheme 2

Options granted under the "US Options Scheme 2" are Unapproved Options granted to US employees as either non-qualifying options or incentive stock options. The US Options Scheme 2 has the same vesting period as Unapproved Options. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Unvested options are forfeited if the employee leaves the Group before the options vest

Growth Shares with "shadow" Unapproved Options

Growth Shares were an upfront award of B, D or E ordinary shares with a nominal value of £0.00001 per share where the ability to receive dividends and a capital return from the shares was conditional on the achievement of a performance target (namely, the growth of the enterprise value of the business beyond a hurdle). According to the terms and conditions, the performance target differed depending on the underlying share.

If this performance target was met, the participants would profit from the whole of the value of the business, not just the growth from the date of the award, on the same basis as the ordinary shares.

The Growth Shares were each issued in conjunction with a "shadow" Unapproved Option. The Unapproved Option could be exercised if the applicable enterprise value hurdle is not met upon an exit event. Both the Growth Shares and the "shadow" Unapproved Options vested according to the Company's standard vesting terms, as discussed in the description of Unapproved Options above.

All share-based incentives are subject to service conditions. Such conditions are not taken into account in the fair value of the service received. The fair value of services received in return for share-based incentives is measured by reference to the fair value of share-based incentives granted. The estimate of the fair value of the share-based incentives is measured using market prices. When market prices do not exist for shares or rights to shares with similar characteristics, fair value is determined by using a valuation technique (either the Monte Carlo or Black-Scholes pricing model as is most appropriate for each scheme).

21. Share-based payment continued

Charge for the year

Included in operating expenses of the Group is a charge for share-based payments and associated social security costs of £4.7 million (2021: £8.9 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

Movements in share plans

Details of movements in the share schemes during the year are as follows:

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options Scheme		Total	
	Number and WAEP[1]		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2021	306,312	0.027	6,292,089	0.300	2,499,297	–	14,515,220	–	3,654,855	0.424	27,267,773	0.140
Granted during the year	–	–	–	–	1,340,578	–	8,680,546	–	–	–	10,021,124	–
Exercised during the year	–	–	(1,108,496)	0.200	(31,582)	–	(982,792)	–	(709,527)	0.367	(2,832,397)	0.170
Forfeited during the year	(7,312)	0.027	(41,509)	0.850	(950,520)	–	(2,872,931)	–	(126,048)	0.598	(3,998,320)	0.028
Outstanding at 31 December 2021	299,000	0.027	5,142,084	0.317	2,857,773	–	19,340,043	–	2,819,280	0.431	30,458,180	0.106

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options Scheme		Total	
	Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2022	299,000	0.027	5,142,084	0.317	2,857,773	–	19,340,043	–	2,819,280	0.431	30,458,180	0.106
Granted during the year	–	–	–	–	3,131,344	–	11,817,920	–	–	–	14,949,264	–
Exercised during the year	(152,700)	0.027	(129,399)	0.417	–	–	(3,121,272)	–	(2,383)	0.410	(3,405,754)	0.017
Forfeited during the year	(5,000)	0.027	(2,789)	1.682	(1,155,891)	–	(8,175,973)	–	(625)	0.440	(9,340,278)	0.001
Outstanding at 31 December 2022	**141,300**	**0.026**	**5,009,896**	**0.314**	**4,833,226**	**–**	**19,860,718**	**–**	**2,816,272**	**0.431**	**32,661,412**	**0.097**

1 Weighted average exercise price

The following table summarises information about the share awards outstanding at 31 December 2022:

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options		Total	
Range of	Number and WARCL[1]		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
exercise prices	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0–£0.008	–	–	2,260,017	5.4	4,833,226	–	19,860,718	7.9	–	–	26,953,961	6.2
£0.009–£0.176	141,300	0.8	214,142	0.5	–	–	–	–	24,302	1.4	379,744	0.6
£0.177–£0.471	–	–	2,167,099	4.3	–	–	–	–	2,193,087	2.8	4,360,186	3.5
£0.472–£1.75	–	–	368,638	5.5	–	–	–	–	598,883	5.4	967,521	5.4
	141,300	**0.8**	**5,009,896**	**4.7**	**4,833,226**	**–**	**19,860,718**	**7.9**	**2,816,272**	**3.3**	**32,661,412**	**5.8**

The following table summarises information about the share awards outstanding at 31 December 2021:

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options		Total	
Range of	Number and WARCL[1]		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
exercise prices	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0–£0.008	–	–	2,260,017	6.4	2,857,773	–	19,340,043	7.5	–	–	24,457,833	6.6
£0.009–£0.176	299,000	1.3	214,299	1.5	–	–	–	–	24,385	2.4	537,684	1.4
£0.177–£0.471	–	–	2,305,977	5.5	–	–	–	–	2,196,012	3.8	4,501,989	4.7
£0.472–£1.75	–	–	361,791	6.5	–	–	–	–	598,883	6.4	960,674	6.4
	299,000	**1.3**	**5,142,084**	**5.8**	**2,857,773**	**–**	**19,340,043**	**7.5**	**2,819,280**	**4.4**	**30,458,180**	**6.2**

1 Weighted average remaining contractual life

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

21. Share-based payment continued

Unapproved Options Scheme

There have been no Unapproved Options granted since IPO in 2018. The weighted average fair values of options granted under the Unapproved Options Scheme and the US Options Scheme ranged between £0.73 and £1.80 per option respectively in the previous year. These values were determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

Unapproved Options Scheme	31 December 2018
Share price (various times during the year)	£1.89
Exercise price	£nil–£0.44
Expected life	4 years
Expected volatility	48%
Risk-free interest rate (between)	0.93%–1.02%
Dividend yield	Nil
Forward exchange rate – US Options (between)	0.769

LTIP Awards

Since all LTIP Awards were made post-IPO, the Company has used its share price at grant date as the fair value of the LTIP Awards granted during the year to employees.

In the prior financial year, the only exception to this was for awards made to the former Chief Financial Officer, who departed prior to the end of this financial year (these awards have therefore lapsed). These awards contained market-based performance conditions and the fair value at grant date was calculated using a Black-Scholes model.

The incumbent Chief Financial Officer's LTIP Awards do not contain market-based performance conditions but do include non-market performance conditions (refer to the Remuneration Report for further detail) and, therefore, the Company's share price at grant date is the fair value used, with the likelihood of achieving the non-market performance conditions factored into the accounting charge. In line with IFRS 2, the likelihood will be reassessed at the end of each reporting period.

Free shares and matching shares

The Company has used its share price at grant date as the fair value of free shares and matching shares granted during the year to employees.

22. Notes to the consolidated statement of cash flows

Cash (outflow)/inflow from operating activities

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

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

22. Notes to the consolidated statement of cash flows continued

Cash and cash equivalents

	31 December 2022 £m	31 December 2021 £m
Cash and cash equivalents	**177.7**	224.0

The cash and cash equivalents balance is made up of cash and money market funds. The carrying amount of these assets is approximately equal to their fair value. Included within cash and cash equivalents above is a total of £12.1 million (2021: £24.6 million) in cash which is restricted in use. Of this £1.1 million (2021: £1.0 million) is restricted in use in the event of rental payment defaults and cash held in the securitisation SPVs of £2.9 million (2021: £14.4 million) which has been collected for on-payment to bond holders and is therefore restricted in its use. A further £8.1 million (2021: £9.2 million) of cash is held which is restricted in use to repaying investors in CBILS and RLS loans and paying CBILS and RLS-related costs to the UK government.

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

Analysis of changes in liabilities from financing activities

	1 January 2021 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	31 December 2021 £m
Bank borrowings	(195.5)	123.1	(0.8)	–	(73.2)
Bonds	(294.3)	160.6	(1.6)	(5.0)	(140.3)
Lease liabilities	(30.8)	8.1	(0.1)	(1.1)	(23.9)
Liabilities from financing activities	(520.6)	291.8	(2.5)	(6.1)	(237.4)

	1 January 2022 £m	**Cash flow £m**	**Exchange movements £m**	**Other non-cash movements £m**	**31 December 2022 £m**
Bank borrowings	**(73.2)**	**57.9**	**(7.3)**	**–**	**(22.6)**
Bonds	**(140.3)**	**129.1**	**(8.1)**	**(4.4)**	**(23.7)**
Lease liabilities	**(23.9)**	**7.3**	**(1.6)**	**(1.6)**	**(19.8)**
Liabilities from financing activities	**(237.4)**	**194.3**	**(17.0)**	**(6.0)**	**(66.1)**

23. Operating lease arrangements

As disclosed in notes 1 and 11, leases of low-value items or short-term leases continue to be treated as operating leases.

	31 December 2022 £m	31 December 2021 £m
Lease payments under operating leases recognised as an expense in the year	**0.3**	0.1

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases of £0.7 million (2021: £nil).

Operating lease payments represent payments for lease assets that are individually considered low value.

24. Dividends per share

No ordinary dividends were declared or paid in the current or previous financial years.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

25. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group's key management personnel comprises the Global Leadership Team ("GLT"), which is made up of the Executive Directors and other senior management as defined in note 3 as the chief operating decision maker ("CODM") and the Non-Executive Directors of the Group.

	31 December 2022 £m	31 December 2021 £m
Salaries and short-term benefits	**5.1**	4.2
Equity-based compensation	**1.3**	1.9
Post-employment benefits	**0.1**	0.1
	6.5	6.2

Further details on Directors' remuneration are disclosed in the Remuneration Report in the Corporate Governance section of the Annual Report and Accounts on pages 100 to 115.

Transactions with other related parties

During the year the Group invested £nil (2021: £nil) into entities accounted for as associates, received capital redemptions of £5.1 million (2021: £3.9 million) and received dividends of £0.3 million (2021: £nil).

During the year the Group received service fees from loans held by Knightrider Lending Designated Activity Company of £0.1 million (2021: £0.2 million) and from Throgmorton Lending Designated Activity Company of £0.4 million (2021: £0.7 million). *These entities are subsidiaries of the Group's associates, as detailed in note 29.*

26. Ultimate controlling party

In the opinion of the Directors, the Group does not have a single ultimate controlling party.

27. 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 they did not believe that the terms of business had 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 31 December 2022 there were *undrawn commitments of £41.6 million (2021: £4.2 million). An expected credit loss impairment allowance is held within other* provisions by the Group of £0.3 million (2021: £nil) in relation to the estimated credit losses the Group may be exposed to on these undrawn lines of credit.

28. Subsequent events

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

29. Interests in other entities

Investments in subsidiaries

The Group had the following subsidiaries, all of which have been included in these consolidated financial statements. The proportion of the voting rights in subsidiary undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

Subsidiary undertakings	Place of incorporation	Proportion of ownership interest	Directly/ indirectly held	Registered office address
Funding Circle Ltd	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Asset Finance Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle BB Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Eclipse Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Focal Point Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Global Partners Limited	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Midco Limited	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Property Finance Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Trustee Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Made To Do More Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Horizon Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Polaris Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle USA, Inc.	USA	100%	Directly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Notes Program, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Marketplace, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Investor Funds, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Depositor US LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle CE GmbH	Germany	100%	Directly	Rheinstraße 11, 14513 Teltow
Funding Circle Deutschland GmbH	Germany	100%	Indirectly	Rheinstraße 11, 14513 Teltow
Funding Circle Connect GmbH	Germany	100%	Indirectly	Rheinstraße 11, 14513 Teltow
FC Forderungsmanagement GmbH	Germany	100%	Indirectly	Rheinstraße 11, 14513 Teltow
Funding Circle Espana S.L.	Spain	100%	Indirectly	Calle Claudio Coello número 91, 3a planta, 28006 Madrid
Funding Circle Nederland B.V.	Netherlands	100%	Indirectly	Atrium, Strawinskylaan 3075, 4th Floor, 1077 ZX Amsterdam

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

29. Interests in other entities continued

Investments in associates

Set out below are the associates of the Group as at 31 December 2022 which, in the opinion of the Directors, are material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Associate entity name	Place of incorporation	Proportion of ownership interest	Directly/ indirectly held	Registered office address
Funding Circle European SME Direct Lending Fund I[1]	Ireland	24%	Indirectly	70, Sir John Rogerson's Quay, Dublin 2, Ireland
Funding Circle UK SME Direct Lending Fund I[1]	Ireland	8%	Indirectly	70, Sir John Rogerson's Quay, Dublin 2, Ireland

1 Private sub-fund held via the Funding Circle ICAV, an Irish collective asset-management vehicle constituted as an umbrella fund with registered office address of 70, Sir John Rogerson's Quay, Dublin 2, Ireland

The associates outlined above directly hold investments in subsidiary entities as detailed below, which are considered to be related parties of the Group.

Other related party name	Place of incorporation	Relationship	% ownership by associate	Immediate parent entity	Registered office address
Knightrider Lending Designated Activity Company[1]	Ireland	Subsidiary of associate	100%	Funding Circle European SME Direct Lending Fund I	70, Sir John Rogerson's Quay, Dublin 2, Ireland
Throgmorton Lending Designated Activity Company	Ireland	Subsidiary of associate	100%	Funding Circle UK SME Direct Lending Fund I	70, Sir John Rogerson's Quay, Dublin 2, Ireland

1 Knightrider Lending Designated Activity Company is in liquidation, having appointed a liquidator on 16 December 2022

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not Funding Circle Holdings plc's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including modifications for differences in accounting policy. While the Group holds less than 20% ownership in Funding Circle UK SME Direct Lending Fund I the Group considers that it has significant influence over the entity through representation on its Board and so continues to account for it as an associate instead of a trade investment.

The associates are sub-funds which invest in SME loans, and the Group is exposed to default and prepayment risk with respect to the performance of the underlying loans in the associates, to the extent that the share of profit from associate may diminish. The table below illustrates the Group's maximum exposure to the investment in associate which represents the value on the Group balance sheet. The value of the investment is derived from net asset value statements from the sub-funds; however, being private these are not from observable market data, and therefore the fair value is considered to be aligned to the carrying value.

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

Summarised balance sheet (Group's share)	**Funding Circle European SME Direct Lending Fund I 31 December 2022 £m**	**Funding Circle UK SME Direct Lending Fund I 31 December 2022 £m**	Funding Circle European SME Direct Lending Fund I 31 December 2021 £m	Funding Circle UK SME Direct Lending Fund I 31 December 2021 £m
Non-current assets	–	**2.4**	3.1	3.7
Current assets	–	**0.3**	0.6	0.5
Current liabilities	–	**–**	–	–
Non-current liabilities	–	**–**	–	–
Net assets	–	**2.7**	3.7	4.2

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29. Interests in other entities continued

Reconciliation of associates' total shareholders' equity to carrying amount in Funding Circle Holdings plc's consolidated financial statements

	Funding Circle European SME Direct Lending Fund I 2022 £m	**Funding Circle UK SME Direct Lending Fund I 2022 £m**	Funding Circle European SME Direct Lending Fund I 2021 £m	Funding Circle UK SME Direct Lending Fund I 2021 £m
Opening net assets as at 1 January 2022	**15.5**	**51.3**	26.3	64.1
(Loss)/profit for the year	**(0.7)**	**3.2**	2.0	3.1
Exchange differences	**0.3**	–	(1.6)	–
Other comprehensive income	–	–	–	–
Capital redemptions in the year	**(15.1)**	**(18.1)**	(11.2)	(15.4)
Dividends paid in the year	–	**(3.9)**	–	(0.5)
Closing net assets as at 31 December 2022	–	**32.5**	15.5	51.3
Group's share in %	**23.6%**	**8.3%**	23.6%	8.3%
Group's share of net assets as at 31 December	–	**2.7**	3.7	4.2
Accounting policy alignment	–	–	(0.2)	(0.1)
Group's carrying amount	–	**2.7**	3.5	4.1

Summarised statement of comprehensive income (Group's share)	**Funding Circle European SME Direct Lending Fund I 2022 £m**	**Funding Circle UK SME Direct Lending Fund I 2022 £m**	Funding Circle European SME Direct Lending Fund I 2021 £m	Funding Circle UK SME Direct Lending Fund I 2021 £m
Gross income	**0.1**	**0.3**	0.5	0.5
Profit for the year	–	**0.4**	0.6	0.3
Other comprehensive income	–	–	–	–
Total comprehensive income	–	**0.4**	0.6	0.3
Dividends received from associates	–	**0.3**	–	–
Capital redemptions received from associates	**3.6**	**1.5**	2.6	1.3

Interest in other entities

Stichting Derdengelden Funding Circle is not a direct or indirect subsidiary of Funding Circle Holdings plc but is an independent special purpose foundation which is required in the Netherlands to safeguard borrower and investor funds and is consolidated as it is controlled by the Group. The registered office address is Atrium, Strawinskylaan 3075, 4th Floor, 1077 ZX Amsterdam.

The Funding Circle Holdings Employee Benefit Trust was established on 14 September 2018. The purpose of the trust is to facilitate the acquisition of shares in the Company by, or for the benefit of, existing and future employees of the Company and Group subsidiaries and is consolidated as it is controlled by the Group.

Consolidated structured entities: Small Business Origination Loan Trust 2019-3 DAC, Great Trinity Lending 1 DAC, Small Business Lending Trust 2019-A, Small Business Lending Grantor Trust 2019-A, Small Business Lending Trust 2020-A and Small Business Lending Grantor Trust 2020-A are consolidated structured warehouse and securitisation entities which either hold SME loan assets in a warehouse or hold the portfolio of SME loans and issue bonds after securitisation has occurred.

The entities are bankruptcy remote special purpose vehicles and as such there is no requirement for the Group to provide financial support to the entities. The entities' activities are not governed by voting rights and the Group has assessed that it has power over the entities based on the purpose and design of the entity and ability to direct the relevant activities of the entity, the nature of the relationship with the entity and the size of its exposure to the variability of the returns from each entity.

As explained in note 16 the Group experiences credit risk and prepayment risk in relation to the SME loan assets net of bond liabilities, and interest rate risk in relation to the warehouse loan facilities and floating rate bond liabilities which is partially mitigated through the use of derivative financial instruments.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2022

29. Interests in other entities continued

Interest in other entities continued

The principal activities of the Group's most significant subsidiary undertakings are set out below. These are considered significant in the context of the Group's business, results and financial position.

Subsidiary undertakings	Principal activity
Funding Circle Ltd	Acts as facilitator and performs intermediary services in respect of all loans made through the Funding Circle platform in the UK.
Funding Circle USA, Inc.	The US operating subsidiary of Funding Circle. Acts as the administrator of the Funding Circle platform in the US.
FC Marketplace, LLC	Acts as originator and servicer of all loans made through the Funding Circle platform in the US. FC Marketplace, LLC sells each loan it originates, on a servicing retained basis, to third party institutional investors or to affiliates (e.g. Funding Circle Notes Program, LLC) on an arm's length basis.
Funding Circle Notes Program, LLC	A special purpose bankruptcy remote entity which issues loan payment dependent debt securities to accredited investors. It uses the proceeds to purchase a specific corresponding loan made through the Funding Circle platform from FC Marketplace, LLC. The entity retains the contractual rights to receive the cash flows from the loan assets it has purchased, but has assumed a contractual obligation to pay those cash flows to the holders of the debt securities. The eligibility criteria have been met to derecognise the loan assets and associated issued debt securities as a pass-through arrangement under IFRS 9
Funding Circle Focal Point Lending Limited	Subsidiary via which CBILS loans are originated and which holds legal title to loans which are held via trust structures for the beneficial ownership of institutional investors.
Funding Circle Eclipse Lending Limited	Subsidiary via which RLS loans are originated and which holds legal title to loans which are held via trust structures for the beneficial ownership of institutional investors
Funding Circle Deutschland GmbH	Operates the Funding Circle platform in Germany and services loans.
Funding Circle Nederland B.V.	Operates the Funding Circle platform in the Netherlands and services loans.

Company balance sheet

as at 31 December 2022

	Note	31 December 2022 £m	31 December 2021 £m
Non-current assets			
Investments in subsidiary undertakings	5	**333.3**	281.9
		333.3	281.9
Current assets			
Loans due from subsidiary undertakings	7	**0.1**	0.1
Trade and other receivables	6	**0.5**	0.3
Cash and cash equivalents	11	**50.1**	63.4
		50.7	63.8
Total assets		**384.0**	345.7
Current liabilities			
Trade and other payables	8	**1.6**	1.8
Total liabilities		**1.6**	1.8
Equity			
Share capital	9	**0.4**	0.4
Share premium account	9	**293.1**	293.0
Share options reserve		**22.2**	19.1
Retained earnings	10	**66.7**	31.4
Total equity		**382.4**	343.9
Total equity and liabilities		**384.0**	345.7

The Company's profit for the year was £41.4 million (2021: loss of £4.4 million).

The financial statements on pages 179 to 189 were approved by the Board and authorised for issue on 2 March 2023. They were signed on behalf of the Board by:

Oliver White
Director

Company registration number 07123934

The notes on pages 182 to 189 form part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2022

	Note	Share capital £m	Share premium account £m	Share options reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021		0.3	292.6	13.6	34.0	340.5
Loss for the year	10	–	–	–	(4.4)	(4.4)
Transactions with owners						
Transfer of share option costs		–	–	(1.8)	1.8	–
Issue of share capital	10	0.1	0.4	–	–	0.5
Employee share schemes – value of employee services		–	–	7.3	–	7.3
Balance at 31 December 2021		0.4	293.0	19.1	31.4	343.9
Profit for the year	10	–	–	–	41.4	41.4
Transactions with owners						
Transfer of share option costs		–	–	(2.6)	2.6	–
Issue of share capital	10	–	0.1	–	–	0.1
Purchase of own shares		–	–	–	(8.7)	(8.7)
Employee share schemes – value of employee services		–	–	5.7	–	5.7
Balance at 31 December 2022		**0.4**	**293.1**	**22.2**	**66.7**	**382.4**

The notes on pages 182 to 189 form part of these financial statements.

Company statement of cash flows

for the year ended 31 December 2022

	Note	31 December 2022 £m	31 December 2021 £m
Net cash outflow from operating activities	11	**(4.2)**	(2.4)
Investing activities			
Loans advanced to subsidiary undertakings	7	–	(10.0)
Loan repayment from subsidiary undertakings	7	–	19.8
Capital contribution to subsidiary undertakings	5	**(10.0)**	–
Capital redemptions from subsidiary undertakings	5	**8.9**	27.3
Interest received		**0.6**	0.5
Net cash (outflow)/inflow from investing activities		**(0.5)**	37.6
Financing activities			
Proceeds on the issue of shares from the exercise of share options		**0.1**	0.4
Purchase of own shares		**(8.7)**	–
Net cash (outflow)/inflow from financing activities		**(8.6)**	0.4
Net (decrease)/increase in cash and cash equivalents		**(13.3)**	35.6
Cash and cash equivalents at the beginning of the year		**63.4**	27.8
Cash and cash equivalents at the end of the year	11	**50.1**	63.4

The notes on pages 182 to 189 form part of these financial statements.

Notes forming part of the Company financial statements

for the year ended 31 December 2022

1. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Company is a public company limited by shares and registered, incorporated and domiciled in England and Wales. The address of its registered office is given on page 196.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value through profit and loss ("FVTPL"). The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as noted below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The principal activities of the Company and the nature of the Company's operations are as a holding company for a global SME lending platform

As permitted by the exemption in section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The Company made a comprehensive profit for the year of £41.4 million (2021: comprehensive loss of £4.4 million).

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment (see note 5 for further details).

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the Company to make estimates and judgements that affect the application of policies and reported amounts. 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. There were no critical accounting judgements in the year ended 31 December 2022.

Key sources of estimation uncertainty

Reversal of impairment of investments in subsidiary undertakings (note 5)

The carrying value of investment in subsidiary undertakings is reviewed for impairment or impairment reversal on an annual basis. The recoverable amount is determined based on the higher of value in use and fair value less cost to sell, with value in use being applied for this assessment where an indicator of impairment or impairment reversal is identified. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of the subsidiaries and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates.

It was identified that there was an indicator of impairment reversal related to increased certainty of future profitability of the US business, supported by the Group's transfer pricing arrangements and reflected through the recognition of a deferred ta asset in the Group's accounts based on the expectation that losses will be utilised against future profits As a result an assessment of the value in use of the investment in Funding Circle USA, Inc. was undertaken.

An impairment reversal of £45.3 million was recognised in relation to Funding Circle USA, Inc. in the year ended 31 December 2022.

The investment remains subject to estimation uncertainty and its value could materially diverge from management's estimate. The Group prepares a five-year management plan for its operations, which is used in the value-in-use calculation. The management plan was conservatively adjusted to reflect risk and uncertainty to the growth assumptions for the purpose of the impairment assessment when benchmarking to historically achieved growth rates. The cash flow projections are based on the following key assumptions:

- cumulative annual growth rate of 15%;
- pre-tax discount rate of 16.8%;
- the subsidiary will be able to distribute future cash flows to the Company without constraint; and
- the impact of transfer pricing arrangements within the Group are considered and assumed to be cash settled, further supporting cash flows of the US business.

The above assumptions are based on historical trends and future market expectations.

In light of the impairment reversal, if any of the key assumptions were to be stressed then the estimated value-in-use would be sensitive to these for the year ended 31 December 2022, both favourably through further impairment reversal and unfavourably through additional impairment.

1. Significant accounting policies continued

Key sources of estimation uncertainty continued

Reversal of impairment of investments in subsidiary undertakings (note 5) continued

A 500bps increase or decrease in the cumulative annual revenue growth would increase/decrease the value-in-use estimate by +£6.7 million/-£6.7 million.

A 100bps increase or decrease in discount rate would decrease/increase the value in use estimate by -£2.6 million/+£2.9 million.

The near-term cash flows of the US business are additionally supported by cash received back from the SME loans (securitised). These cash flows are sensitive to estimation uncertainty with regards to estimated default rates which correlates with their valuation as disclosed in note 2 of the Group's financial statements.

After the reversal of impairment, cumulative impairment remains in relation to the investment in Funding Circle USA, Inc. of £110.6 million.

2. Financial risk management

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

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

Risk factors

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

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

Principal financial instruments

The principal financial assets and liabilities of the Company, from which financial instrument risk arises, are as follows:

- loans due from related undertakings;
- trade and other receivables;
- cash and cash equivalents; and
- trade and other payables.

Categorisation of financial assets and financial liabilities

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category as at 31 December 2022:

	Carried at amortised cost		Carried at fair value	
	Carrying amount £m	Fair value £m	Based on market derived data £m	Based on individual valuation parameters £m
Assets				
Loans due from related undertakings	**0.1**	0.1	–	–
Trade and other receivables	**0.3**	0.3	–	–
Cash and cash equivalents	**4.8**	4.8	**45.3**	–
	5.2	5.2	**45.3**	–
Liabilities				
Trade and other payables	**(0.2)**	(0.2)	–	–
	(0.2)	(0.2)	–	–

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.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2022

2. Financial risk management continued

Categorisation of financial assets and financial liabilities continued

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

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

The Company's financial assets measured at fair value are all categorised as level 1 in both the current year and prior year.

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category as at 31 December 2021:

	Carried at amortised cost		Carried at fair value	
	Carrying amount £m	Fair value £m	Based on market derived data £m	Based on individual valuation parameters £m
Assets				
Loans due from related undertakings	0.1	0.1	–	–
Trade and other receivables	0.1	0.1	–	–
Cash and cash equivalents	14.1	14.1	49.3	–
	14.3	14.3	49.3	–
Liabilities				
Trade and other payables	(0.1)	(0.1)	–	–
	(0.1)	(0.1)	–	–

Financial instruments measured at amortised cost

Due to the short-term nature of the financial assets and liabilities measured at amortised cost, the carrying value approximates their fair value.

The fair value of financial assets held at fair value, comprising cash and cash equivalents, approximates their carrying value. Credit risk is mitigated as cash and cash equivalents are held with reputable institutions.

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial asset fails to meet its contractual obligations, and arises principally from the Company's receivables from related undertakings and cash and cash equivalents held at banks.

The Company's maximum exposure to credit risk by class of financial asset is as follows:

	31 December 2022 £m	31 December 2021 £m
Non-current		
Loans due from related undertakings	–	–
Current		
Loans due from related undertakings	**0.1**	0.1
Trade and other receivables:		
– Amounts due from related undertakings	**0.2**	0.1
– Accrued interest	**0.1**	–
Cash and cash equivalents	**50.1**	63.4

Liquidity risk

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

The Company's liquidity position is monitored and reviewed on an ongoing basis by the Directors

The amounts disclosed in the below tables are the contractual undiscounted cash flows.

2. Financial risk management continued

Financial risk factors continued

Liquidity risk continued

The maturity analysis of financial assets and liabilities at 31 December 2022 and 31 December 2021 is as follows:

At 31 December 2022	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m
Financial assets				
Trade and other receivables	**0.3**	–	–	–
Cash and cash equivalents	**50.1**	–	–	–
Loans due from related undertakings	**0.1**	–	–	–
	50.5	–	–	–
Financial liabilities				
Trade and other payables	**(0.2)**	–	–	–
	(0.2)	–	–	–

At 31 December 2021	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m
Financial assets				
Trade and other receivables	0.1	–	–	–
Cash and cash equivalents	63.4	–	–	–
Loans due from related undertakings	0.1	–	–	–
	63.6	–	–	–
Financial liabilities				
Trade and other payables	(0.1)	–	–	–
	(0.1)	–	–	–

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's market risk arises from open positions in interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

a) Other price risk

The Company is not exposed to market risk with respect to financial instruments as it does not hold any marketable equity securities.

b) Cash flow and fair value interest rate risk

Interest on cash and cash equivalent balances is subject to movements in base rates. The Directors monitor interest rate risk and note that rates have risen over the course of the year from their historical lows and are forecast to rise further over 2023. A 1.0% increase in base rates could increase the annual interest earned by c.£0.5 million (2021: 0.5% increase and c.£0.3 million).

c) Sensitivity analysis

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed above, the Company does not have significant exposure to interest rate risk, cash flow risk or other price risk and therefore no sensitivity analysis for those risks has been disclosed.

d) Foreign exchange risk

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign exchange risk is disclosed in note 16 to the consolidated financial statements.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2022

2. Financial risk management continued

Capital management

The Company considers its capital to comprise equity share capital, share premium, share options reserve and retained earnings

The Directors' objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders.

The Company is not subject to any externally imposed capital requirements

The Directors monitor a number of KPIs at both the Company and individual subsidiary level on a monthly basis. As part of the budgetary process, targets are set with respect to operating expenses in order to effectively manage the activities of the Company. Performance is reviewed on a regular basis and appropriate actions are taken as required These internal measures indicate the performance of the business against budget/forecast and confirm that the Company has adequate resources to meet its working capital requirements.

3. Company profit/(loss) for the year

The Company made a comprehensive profit for the year of £41.4 million (2021: comprehensive loss of £4.4 million).

4. Employees

The Company had no employees during the current or prior year other than Directors who numbered 8 (2021: 10). The Company did not operate any pension schemes during the current or preceding year. Directors received emoluments in respect of their services to the Company during the year of £2.1 million (2021: £1.3 million). For further information see the Remuneration Report on page 106.

5. Investments in subsidiary undertakings

	2022 £m	2021 £m
Balance at 1 January	**281.9**	303.3
Capital contribution regarding employee services in subsidiaries	**5.0**	5.9
Capital additions	**50.7**	–
Return of capital	**(49.6)**	(27.3)
Reversal of impairment	**45.3**	–
Balance at 31 December	**333.3**	281.9

Investments in subsidiary undertakings, which are listed in note 29 of the Group financial statements, are all stated at cost less any provision for impairment.

During the year the Company made capital contributions in the form of cash investments of £10.0 million (2021· £nil) to Funding Circle USA, Inc and non-cash investment of £40.7 million (2021: £nil) to Funding Circle Ltd. The Company received £8.9 million cash (2021: £3.4 million) from Funding Circle Global Partners Limited and £40.7 million non-cash (2021: £23.9 million) from Funding Circle USA, Inc. as capital redemptions.

In addition to the above, the Company recognised a capital contribution of £5.0 million (2021: £5.9 million) representing the service cost for the employees of its subsidiaries, under the Company's share option schemes.

During the year ended 31 December 2022 the Company identified a reversal of impairment of £45.3 million in relation to the Company's investment in Funding Circle USA, Inc. to a value of £80.5 million. No impairment or impairment reversal was recognised in the year ended 31 December 2021 in relation to investment in subsidiary undertakings.

The cumulative amount of impairment losses in relation to investment in subsidiaries is £190.8 million (2021. £236.1 million).

6. Trade and other receivables

	31 December 2022 £m	31 December 2021 £m
Amounts due from related undertakings	**0.2**	0.1
Prepayments	**0.2**	0.2
Accrued income	**0.1**	–
	0.5	0.3

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

7. Loans due from subsidiary undertakings

	31 December 2022 £m	31 December 2021 £m
Funding Circle USA, Inc.	**—**	—
Stichting Derdengelden Funding Circle	**0.1**	0.1
Current portion	**0.1**	0.1

Amount due from Group undertakings

During 2022, the Company operated a loan facility agreement with Funding Circle Ltd (subsidiary company). Under the terms of the agreement, the Company provided an unsecured sterling revolving credit facility of a total principal amount not exceeding £20.0 million (2021. £20.0 million) to Funding Circle Ltd which is repayable at the end of the facility term of five years on 5 August 2025. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England.

During the year the Company has provided £nil (2021: £5.0 million) of additional funding under the facility agreement. Total interest income of £nil (2021: £nil) has been recognised in the Company statement of comprehensive income.

In the current year, Funding Circle Ltd settled certain amounts due under the intercompany loan obligations cumulative of interest of £nil (2021: £5.0 million) with the Company. £nil of this was settled via cash (2021: £5.0 million). The facility was drawn by £nil (2021: £nil) at the balance sheet date.

During the year the Company operated a revolving credit facility to Funding Circle CE GmbH of up to €2.0 million (2021: up to €2.0 million). Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 18 July 2024. The facility was drawn by £nil (2021: £nil) at the balance sheet date.

During the year, the Company continued to operate an unsecured sterling revolving credit facility for £1.0 million with its subsidiary (Funding Circle Global Partners Limited ("FCGPL")). Under the agreement, any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable with the principal amount at the end of the facility term of five years on 30 June 2022. The facility was drawn by £nil (2021: £nil) at the balance sheet date. The carrying amount of this receivable approximates to its fair value.

During the year, the Company continued to operate a term loan facility to Funding Circle USA, Inc. of up to £7.7 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 13 January 2025. In addition, the Company continued to provide a revolving credit facility to Funding Circle USA, Inc. of up to $3.0 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 27 January 2025.

In the current year, Funding Circle USA, Inc. cash settled certain amounts due under the intercompany loans cumulative of interest of £nil and $nil (2021: £8.1 million and $3.1 million) with the Company. Total interest income of £nil (2021: £0.5 million) has been recognised in the Company statement of comprehensive income. The facilities were drawn by £nil (2021: £nil) and $nil (2021: $nil) at the balance sheet date.

During the year, the Company continued to operate a revolving credit facility to Funding Circle USA, Inc. of up to £10.0 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 21 January 2026.

During the year, the Company has provided £nil (2021: £5.0 million) of additional funding under the facility agreement. Funding Circle USA, Inc. settled certain amounts due under the intercompany loan obligations cumulative of interest of £nil (2021: £5.0 million). The facility was drawn by £nil (2021: £nil) at the balance sheet date.

8. Trade and other payables

	31 December 2022 £m	31 December 2021 £m
Accruals	**0.9**	1.3
Taxes and social security costs	**0.5**	0.4
Other creditors	**0.2**	—
Amounts due to related undertakings	**—**	0.1
	1.6	1.8

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

Notes forming part of the Company financial statements continued

for the year ended 31 December 2022

9. Share capital and share premium account

The movement on these items is disclosed in notes 17 and 18 to the consolidated financial statements.

10. Retained earnings

	£m
At 1 January 2021	34.0
Transfer of share option costs	1.8
Loss for the year	(4.4)
At 31 December 2021	31.4
Transfer of share option costs	2.6
Purchase of own shares	(8.7)
Profit for the year	41.4
At 31 December 2022	**66.7**

11. Notes to the Company statement of cash flows

Cash outflow from operating activities

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) before taxation	**41.4**	(4.4)
Adjustments for		
Interest receivable	**(0.6)**	(0.5)
Non-cash employee benefits expense – share-based payments	**0.7**	1.5
Reversal of impairment charge	**(45.3)**	–
Changes in working capital		
Movement in trade and other receivables	**–**	0.7
Movement in trade and other payables	**(0.4)**	0.3
Net cash outflow from operating activities	**(4.2)**	(2.4)

Cash and cash equivalents

	2022 £m	2021 £m
Balance at 1 January	**63.4**	27.8
Cash flow	**(13.3)**	35.6
Balance at 31 December	**50.1**	63.4

These comprise cash held by the Company, short-term bank deposits with an original maturity of three months or less and money market funds. The carrying amount of cash balances approximates their fair value. As at 31 December 2022, money market funds totalled £45.3 million (2021: £49.3 million).

12. Related parties

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Short-term payables/receivables				
Funding Circle Ltd	**0.1**	–	**–**	0.1
Funding Circle USA, Inc.	**0.1**	0.1	**–**	–
Intercompany loans				
Funding Circle USA, Inc	**–**	–	**–**	–
Stichting Derdengelden Funding Circle	**0.1**	0.1	**–**	–
	0.3	0.2	**–**	0.1

During the year, the Company received payment of expenses for amounts of £0.3 million (2021: received payment of expenses for amounts of £1.2 million) from Funding Circle Ltd

12. Related parties continued

During the year, the Company made a non-cash capital contribution to Funding Circle Ltd of £40.7 million in exchange for the subsidiary's intercompany payable to Funding Circle USA, Inc. and received a non-cash return of capital from Funding Circle USA, Inc. of £40.7 million in consideration for the subsidiary's intercompany receivable from Funding Circle Ltd. The intercompany balance that was capitalised into the net investment in the subsidiary undertakings through this transaction primarily related to the transfer pricing arrangements between the entities.

During the year the Company received return of capital of £8.9 million (2021: £3.4 million) from Funding Circle Global Partners Limited and £nil (2021: £23.9 million) from Funding Circle USA, Inc.

During the year the Company made a capital contribution of £10.0 million (2021: £nil) to Funding Circle USA, Inc.

As at the year end, the Company was owed a cumulative amount of £0.1 million (2021: £0.1 million) from loans with Stichting Derdengelden Funding Circle.

See note 14 in relation to remuneration of key management personnel.

13. Parent Company guarantee – exemption from audit for subsidiary companies

The following UK entities, all of which are 100% owned by the Group, are not subject to an audit by virtue of section 479A of the Companies Act 2006 relating to subsidiary companies:

Company	Registration number
Funding Circle Asset Finance Limited	07832868
Funding Circle BB Limited	12593368
Funding Circle Eclipse Lending Limited	12570773
Funding Circle Focal Point Lending Limited	12407296
Funding Circle Global Partners Limited	10554628
Funding Circle Midco Limited	11793162
Funding Circle Property Finance Limited	08896582
Funding Circle Horizon Lending Limited	13451185
Funding Circle Trustee Limited	07239092

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

The Company will guarantee the debt and liabilities of the European subsidiary Funding Circle CE GmbH and therefore meets the requirements of section 264(3) HGB and the entity is not subject to audit by virtue of this guarantee. The Company has assessed the probability of loss under the guarantee as remote.

The following UK entity, which is 100% owned by the Group, is exempt from the requirement to prepare accounts by virtue of section 394A and section 448A of the Companies Act 2006 relating to the individual accounts of dormant subsidiaries:

Company	Registration number
Made To Do More Limited	10575978
Funding Circle Polaris Lending Limited	13216286

14. Remuneration of key management personnel

The remuneration of key management personnel is disclosed in note 25 to the consolidated financial statements.

15. Ultimate controlling party

In the opinion of the Directors, the Group does not have a single ultimate controlling party.

Alternative performance measures

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition
Income statement			
Adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Refer to note 3.	Operating profit/(loss) before finance income and costs, taxation, depreciation and amortisation ("EBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items.
Investment AEBITDA and operating AEBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Refer to Finance Review.	Investment AEBITDA refers to investment income, investment expense and fair value adjustments and operating AEBITDA represents AEBITDA excluding investment AEBITDA
Net investment income	Net income.	Refer to Finance Review.	Net investment income represents investment income less investment expense.
Exceptional items	None.	Refer to note 5.	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 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 less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows and excludes cash flows on draw downs and repayment of FlexiPay lines of credit.

Glossary

Term	Definition
8th generation	We use generational factors at Funding Circle to describe the number of fundamental enhancements/revisions that have been made to the credit modelling used to determine borrower creditworthiness for lending. In the UK we are currently using an 8th generation credit model. In the US we are on our 5th generation.
Amortisation	In lending terms, the process by which the outstanding balance on a loan reduces through repayments made by the borrower, until the loan is fully repaid. Not to be confused with the general accounting term relating to the equivalent form of depreciation for intangible assets.
API	Application Programming Interface. Term used to describe a technical solution facilitating customer access to Funding Circle's platform and capability via a partner website to create seamless provisioning of Funding Circle products and services on its site. We also refer to this solution as an "embedded" route to reaching potential new borrowers.
BBB	British Business Bank. A state-owned economic development bank established by the UK government. Its aim is to increase the supply of credit to small and medium-sized enterprises as well as providing business advice services. The BBB has administered all the recent government-backed loan schemes in the UK on behalf of the Secretary of State for BEIS.
BBLS	Bounce Back Loan Scheme. A UK government-backed low fixed interest loan scheme intended to support businesses through the Covid-19 pandemic. The scheme facilitated loans of a maximum of £50,000 for up to six years, and these were 100% backed by a government guarantee for the lender. The borrower always remained fully liable for the debt. All Funding Circle loans under BBLS were to existing core lending customers and Group total lending under the scheme amounted to c.£35 million.
BEIS	Department for Business, Energy & Industrial Strategy. A UK government department throughout the reporting period. The ministerial department has been responsible for business, industrial strategy, science, innovation, energy and climate change throughout FY 2022. The UK government subsequently announced the disbandment of the department on 7 February 2023 into four new departments, the most relevant of which for Funding Circle purposes is the new Department for Business and Trade.
Beta testing	The second phase of testing a new product using real customers in a live, but restricted environment.
Board	The Board of Directors of Funding Circle Holdings plc.
Borrowers	Actual or prospective borrowers participating on the Group's lending platform.
Capital Markets	A functional division within Funding Circle that deals with all relations and activities associated with institutional investors.
CBILS	Coronavirus Business Interruption Loan Scheme. UK government-backed loan scheme intended to provide support for small businesses (up to £45 million annual turnover) through the Covid-19 pandemic. The scheme facilitated loans from £1,000 to £5 million for up to six years, with the first 12 months of interest charges, and lender levied fees covered by the government. The loans were initially 80% backed by government guarantee for the lender, reducing later to 70%, but the borrower always remained fully liable for the debt. CBILS closed to new applications on 31 March 2021. Funding Circle was the third largest approver through the scheme among 90 accredited providers, facilitating some c.£3 billion of loans. Transaction fee yields on CBILS loans were fixed at 4.75%.
CCDS	Commercial Credit Data Sharing. Effectively a light version of Open Banking. A UK government initiative mandated under the Small Business Enterprise & Employment Act 2015 with the aim of actively stimulating competition and new entrants in SME lending markets. The scheme is run by HM Treasury and mandates the sharing of financial data on SMEs by the nine designated banks which account for over 80% of SME lending in the UK.
CDFI	Community Development Financial Institution. Specialised small bank-like institution in the US that provides financial services in low-income communities and to organisations and people who lack access to financing.
Circlers	Term used by the Group to refer to its employees.
Cohorts	Term used to denote loan groupings. Loan cohorts are determined by their year of origination. Investor cohorts denote loan groupings according to the loan funding institution.
Company	When capitalised, "Company" refers to Funding Circle Holdings plc.

Glossary continued

Term	Definition
C&R	Collections and Recoveries. A division of Funding Circle. Credit **Collection** obtains payments from borrowers of debt classified as delinquent. This process is usually managed in house across the lending industry. Debt **Recovery** obtains payments from borrowers of debt classified as in default. Across the wider lending industry this process is usually managed by a third party; at Funding Circle we have a dedicated function managing this process.
Credit box	A mostly internally used term that encapsulates both the SME database and credit modelling used by Funding Circle to determine the criteria by which we lend to borrowers.
Credit bureau	A company that collects information relating to credit ratings of companies and/or individuals and makes this available to other financial institutions.
Credit model	Mathematical model used to estimate the probability for a customer to default on a loan.
Default	Term used to describe loans where the customer has failed to repay a loan in accordance with the terms of the agreement. Loans are placed into default when it is deemed likely the customer can no longer meet the terms of the scheduled loan repayments (e.g. due to company liquidations and insolvencies) or when the borrower has consistently failed to pay in accordance with the terms and it has not been possible to arrange an alternative repayment schedule. A default affects the credit score of the borrower.
Delinquencies	Term used to describe loans where the borrower is late making payment(s) This need not affect a customer's credit score if the borrower is able to agree and meet a revised schedule for repayments
Developing Markets	The name formerly used for the primary reporting segment for the Group now referred to as "Other Loans", consisting of operations in Germany, the Netherlands and Spain (all of which the Group has now exited and are in wind down).
Directors	When capitalised, "Directors" refers to the Board Directors of Funding Circle Holdings plc, both Executive Directors and Non-Executive Directors.
EBT	Employee Benefit Trust. A trust under which shares in the Company are held on behalf of the employees.
EIB	European Investment Bank. The lending arm of the European Union.
Employee engagement score/index	Employee engagement is a function of the relationship between the Group and its employees. We measure this through surveys designed to help understand and improve the workplace and culture so that our employees feel more connected and dedicated to the Group goals and values.
ERMF	Enterprise Risk Management Framework.
Executive Directors	When capitalised, "Executive Directors" refers to the executive directors of Funding Circle Holdings plc. Currently the CEO and CFO of the Group.
FCA	Financial Conduct Authority. The UK institution responsible for regulating financial institutions.
FlexiPay	FlexiPay is Funding Circle's new line of credit product that allows businesses to make purchases and then spread the cost over three months, paying back in three equal monthly instalments. It's designed to satisfy the working capital needs of SME businesses and is currently available in the UK.
FlexiPay card	FlexiPay card is another way for customers to use their FlexiPay line of credit, helping them to pay for everyday business expenses and make purchases. Currently in beta launch phase in the UK.
Forward flow agreements	Agreements made between Funding Circle and institutional investors that indicate the lending funds they intend to provide for borrowers. Agreements generally stipulate the key lending terms, target borrower metrics, total funds earmarked for lending and the period over which they will be deployed.
Institutional investors	Actual or prospective institutional investors participating on the Group's platform who provide the funds to lend to SME borrowers, and who also take the credit risk associated with the loans.
Funding Circle Continental Europe	Funding Circle CE GmbH and its subsidiaries and subsidiary undertakings. Combination of Funding Circle operations in Germany, the Netherlands and Spain.
Funding Circle Germany	Funding Circle Deutschland GmbH. Funding Circle operations in Germany.

Term	Definition
Funding Circle NL	Funding Circle Nederland B.V. Funding Circle operations in the Netherlands.
Funding Circle UK	Funding Circle Ltd. Funding Circle operations in the UK.
Funding Circle US	Funding Circle USA, Inc. and its US subsidiaries and affiliates. Funding Circle operations in the US
FVTPL	Fair Value Through Profit or Loss. Term used to describe those securities where the business model under which these investments are held by the Group remains for these to be sold; and hence the fair value of these investments is reported through the P&L.
Government-backed loan schemes	Term used to describe the various schemes deployed by governments to support their economies through economic shocks, most recently the Covid-19 pandemic. These include CBILS, BBLS and RLS in the UK and PPP in the US (see definitions). Invariably, government-backed loan schemes have conferred various advantages to either or both the institutional investors and the borrowers making them more attractive products compared to normal commercial lending. Lenders and lending platforms normally require formal accreditation to be able to provide the loans under these schemes.
GDPR	General Data Protection Regulation. EU regulation governing how personal data is gathered and used.
GPO	Global Platform for Originations.
Group (or Funding Circle)	Funding Circle Holdings plc and its subsidiaries and subsidiary undertakings.
IDL	Instant Decision Lending. The part of our platform that facilitates automatic decisions on borrowers' loan applications. In the UK, the system enables applications to be completed easily in around six minutes, with decisions in as little as nine seconds and the money in the borrower's account in 24 hours.
IFRS	International Financial Reporting Standards, as adopted by the European Union.
LaaS	Lending as a Service. A distribution platform launched in the US. Funding Circle's offering allows financial institutions to give their customers a fully integrated, digital end-to-end borrowing experience without the significant investment and resources required to build or buy their own platform. By leveraging Funding Circle's technology and expertise, financial institutions can quickly and easily enter the digital lending market, offer loans to their business customers and earn attractive interest and fee revenue.
LuM	Loans under Management. The total value of outstanding principal and interest to borrowers; includes amounts that are overdue (delinquencies), but not loans that have defaulted.
LTIP	Long-term Incentive Plan. A scheme used to reward employees.
MAR	Market Abuse Regulation. EU regulation designed to combat market abuse in financial markets.
Marketplace	Term used to describe our referral of borrowers (who fall outside our credit risk or service capability) to specialist lenders who can meet their needs. Funding Circle generally receives a fee for such referrals.
MiFID II	Markets in Financial Instruments Directive. EU regulation.
MTP	Medium-term plan. Our operational and financial plans for delivering growth to FY 2025. This includes a focus on three key areas: attract more businesses; say yes to more businesses; and #1 in new products.
Mission	The Funding Circle mission is to "build the place where small businesses get the funding they need to win".
NPS	Net Promoter Score. An index ranging from -100 to +100 that measures the willingness of customers to recommend a company's products or services to others. The more positive the score, the more likely a customer is to recommend the service
NED	Non-Executive Director. When capitalised, "NED" refers to a non-executive director of the Board of Funding Circle Holdings plc.
Open Banking	An initiative led by the UK's Competition and Markets Authority, intended to create more competition in the banking industry and to encourage better services and more innovation to improve customers' banking experience. Using a set of technologies and standards Open Banking allows customers to safely and securely share their bank account information. Users decide what information they allow to be shared and for how long.
Origination	Term used to describe the process of obtaining and onboarding a new borrower.

Glossary continued

Term	Definition
P2P lending	Peer-to-peer lending. A legacy service that facilitated retail investments in loans to SME businesses on a retail platform. Funding Circle paused P2P lending in April 2020, and in March 2022 the Group confirmed that it would permanently close the retail platform for new investments. Some legacy historical P2P lending remains on the Group balance sheet, but this will reduce to £nil as the loans continue to amortise.
PPP	Paycheck Protection Program. A US government (SBA)-backed loan scheme to help SMEs keep their workforces employed during the Covid-19 pandemic Borrowers are able to apply for forgiveness on these loans where they can prove that the proceeds have been spent on payroll costs and other eligible expenses. The scheme closed to new business on 31 May 2021. Accounting for PPP loans differs to normal loans with transaction fees spread over the expected life of the loans under IFRS9 (as the loans must be held on balance sheet at amortised cost until forgiven, and with no servicing fees earned on PPP loans.
PPPLF	The Paycheck Protection Program Liquidity Facility. The name of the funding facility used by the US Government for PPP loans.
RLS	Recovery Loan Scheme. A UK government-backed loan scheme to help businesses recover from the effects of Covid-19. To date there have been three different RLS schemes, designed to support access to finance for UK businesses as they looked to invest and grow Term loans of up to £2 million and six months have been available through the scheme at improved commercial terms. The government provided lenders under the scheme with 70% guarantees against the outstanding balance of the facility after normal recovery processes. The borrower always remains fully liable for the debt.
SBA	Small Business Administration. US governmental institution established in 1953 to help small businesses succeed by providing counselling, capital, contracting expertise, information resources and a voice for small businesses.
SCRF (formerly FCIF)	SME Credit Realisation Fund Limited. Originally the Funding Circle SME Income Fund ("FCIF"). A Guernsey closed-ended investment company listed on the Main Market of the London Stock Exchange in 2015 (ticker: SCRF). The company is in managed wind-down. Its investment objective is to realise all assets in its portfolio in a prudent manner to achieve a balance between maximising the value from the realisation of the Company's investments and making timely returns of capital to shareholders. The fund includes assets in the UK, the US, the Netherlands and Germany.
Securitisation	The process by which multiple loans are pooled and packaged into interest-bearing securities (bonds) **Horizontal securitisation** denotes the packaging of loans into cohorts ranked according to risk potential: from the lowest risk, lowest reward, first receiver of loan yield, to the highest risk, highest reward bearer of first losses and receiver of surplus yield on the loans. In terms of existing horizontal securitisations on the Group balance sheet, Funding Circle temporarily holds the residual tranches with the intention to sell once seasoned. **Vertical securitisation** denotes a packaging of loans where all investors take their share of the yield across the entire pool of loans. In terms of existing vertical securitisations on the Group balance sheet, Funding Circle was required by regulation to retain a 5% equal participation in all classes of bonds issued.
Segment	The principal reporting segments of our operations, representing the divisional structure through which the business is currently managed. Namely UK Loans, US Loans, Other Loans (formerly Developing Markets) and New Products.
Servicing yield	The ratio of the servicing fee (the fee charged to institutional investors for managing their loans) to the amortised loan balance. Typically, the servicing yield is between 1% and 1.25% pa of the loan balance.
SMB	Small and medium-sized businesses. Term used in the US to represent smaller businesses (the US equivalent of the UK's SMEs).
SME	Small and medium-sized enterprises Term used in the UK to represent smaller businesses (the UK equivalent of the US's SMB).
SONIA	Sterling Overnight Index Average. A UK interest rate benchmark that came in as a replacement for LIBOR (London Interbank Offer Rate).
SPV	Special Purpose Vehicle A subsidiary created by a company to isolate a financial risk. The Group has held a number of SPVs housing securitised loans.
TAM	Total Addressable Market. An estimation of the total potential market value for which Funding Circle can compete
Unrestricted cash	Term used to describe the cash on the balance sheet that is available for use by Funding Circle. This excludes cash balances being held on behalf of third parties, like governments and bondholders
Warehousing	Process whereby loans that have been issued to borrowers are pooled into a holding warehouse with the intention that these are ultimately being held for packaging and reselling to a third party investor.

Shareholder and Company information

Shareholder information

Receiving shareholder information by email:

You can opt to receive shareholder information from us by email rather than by post. We will then email you whenever we add shareholder communications to the Company website. To set this up, please visit www.shareview.co.uk and register for electronic communications ("e-comms").

If you subsequently wish to change this instruction or revert to receiving documents or information by post, you can do so by contacting the Company's registrars at the address shown in the Company information opposite. You can also change your communication method back to post by logging in to your Shareview account and going to "update my communication preferences" within the "Quick links" section.

The registrars can also be contacted by telephone on +44 (0)371 384 2030 (non-UK callers +44 (0)121 415 7047) or +44 (0)371 384 2255 (text phone). Calls to this number cost no more than a national rate call from any type of phone or provider. These prices are for indication purposes only; if in doubt, please check the cost of calling this number with your phone line provider. Lines are open 8.30 a.m.–5.30 p.m., Mon-Fri excluding public holidays in England and Wales.

Shareholder enquiries

If you have any queries relating to your shareholding, dividend payments or lost share certificates, or if any of your details change, please contact the Company's registrars by visiting www.shareview.co.uk or by using the contact details above.

Annual shareholder calendar

Final results announced	2 March 2023
Annual Report published	30 March 2023
Annual General Meeting	11 May 2023

Interim Report

As part of our e-comms programme, we have decided not to produce a printed copy of our Interim Report. We will instead publish the report on our website. It is expected that this year's report will be available on our website in September.

Cautionary statement

Certain statements included in our 2022 Annual Report, or incorporated by reference to it, may constitute "forward-looking statements" in respect of the Group's operations, performance, prospects and/or financial condition.

Forward-looking statements involve known and unknown risks and uncertainties because they are beyond the Group's control and are based on current beliefs and expectations about future events about the Group and the industry in which the Group operates

No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. If the assumptions on which the Group bases its forward-looking statements change, actual results may differ from those expressed in such statements. The forward-looking statements contained in this report reflect knowledge and information available at the date of this Annual Report and the Group undertakes no obligation to update these forward-looking statements except as required by law.

This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase, any shares or other securities in the Company, and nothing in this report should be construed as a profit forecast.

Company information

Directors

Executive Directors

L Jacobs (Chief Executive Officer)
O J White (Chief Financial Officer)

Non-Executive Directors

A D Learoyd (Chair)
S Desai CBE (Founder)
J E Daniels
G Gopalan
H W Nelis
N A Rimer
H Beck
M J W King

Company Secretary

L K Vernall

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Bankers

Barclays Bank UK plc
1 Churchill Place
London E14 5HP

Santander UK plc
2 Triton Square
Regent's Place
London NW1 3AN

Lloyds Banking Group plc
25 Gresham Street
London EC2V 7AE

Solicitors

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Brokers

Goldman Sachs International
25 Shoe Lane
London EC4A 4AU

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Registered office

71 Queen Victoria Street
London EC4V 4AY

Registered number

07123934

Funding Circle Holdings plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Amadeus Silk, an FSC® certified material. This document was printed by Pureprint Group using its environmental print technology, with 99% of dry waste diverted from landfill, minimising the impact of printing on the environment. The printer is a CarbonNeutral® company.

Both the printer and the paper mill are registered to ISO 14001.