FUNDING CIRCLE LTD

Annual Report and Financial Statements

For the Year Ended

31 December 2021

Registered number: 06968588

Contents

Officers and professional advisers

Directors

M King
A D Learoyd
J Le Luel
L Jacobs
O White

Secretary

C Hawkins (Resigned: 24 June 2021)

Registered office

71 Queen Victoria Street
London
EC4V 4AY

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT
United Kingdom

Bankers

Barclays Bank PLC
Level 11
1 Churchill Place
London
E14 5HP

Strategic report for the year ended 31 December 2021

The Directors present their strategic report on Funding Circle Ltd (the "Company") for the year ended 31 December 2021. In preparing this strategic report, the Directors have complied with section 414c of the Companies Act 2006.

Principal Activities

The Company is a leading lending platform in the UK where SME ("Small or Medium-sized Enterprise") businesses borrow directly from a diverse range of primarily institutional investors.

At Funding Circle we deliver an amazing customer experience for small businesses using machine learning, technology and data. A great customer experience is built on exceptional fundamentals and seamless technology. Over the past decade, we've built a technology platform that is revolutionising SME lending. Thanks to our instant decision capabilities, small businesses can complete a loan application in minutes and receive a lending decision in seconds, accessing funding quickly and at an affordable rate.

Our technology platform enables us to test, learn and adapt to provide better solutions for SMEs and help solve more small business problems. We innovate and iterate in a continuous feedback loop, committed to driving improvements which has resulted in strong customer satisfaction scores and high repeat rates, enabling us to grow alongside our small businesses.

As we get bigger and help more small businesses access the finance they need, we're building a stronger platform that drives a significant competitive advantage. This in turn, creates a virtuous circle that ensures we continue to meet the borrowing and business finance needs of hundreds of thousands of SMEs.

Funding Circle Limited ("Funding Circle") makes money in two principal ways:

Fee income ("operating income"):
- Transaction fee income from the fees we charge borrowers.
- Servicing fee income from the fees we charge investors.

Investment income:
- The interest income on investments in loans invested within Funding Circle's investment vehicles.

As a result of Covid-19, during early 2020 the business model evolved into focusing on the Coronavirus Business Interruptions Loans Scheme ("CBILS").

The CBILS programme expired on 31 March 2021, with applications received by that date continuing to be processed through April and May 2021. Following the end of this scheme, we relaunched our core product alongside the Recovery Loan Scheme ("RLS"), a new 80% government-guaranteed scheme introduced following CBILS. RLS is expected to cease in June 2022 and we will transition to operating solely our core product by the end of H1.

The Company continued to play a role in an Asset Backed Securitisation ("ABS") programme by providing funding, in the form of a subordinated loan, to the warehouse entity Great Trinity Lending 1 DAC ("GTL") which holds underlying investments in SME loans.

In November 2021, the majority of the loans held by GTL were sold, the related senior borrowing facility was repaid and substantially all of the principal remaining on the subordinate loan to Funding Circle Limited ("FCL") was repaid.

FlexiPay, our new short-term finance product for SME's was launched financed through investment via the Company's subsidiary Funding Circle Horizon Lending Limited and entered its beta trial during 2021. More details on new products can be found on pages 16 to 18 of the Funding Circle Holdings plc Annual Report ("FCH Annual Report") for the year ended 31 December 2021.

Further details on the Company's business model are provided on pages 22 to 23 of the 2021 Annual Report and Accounts of the ultimate parent undertaking Funding Circle Holdings plc ("FCH" or the "Parent" and, together with the Company and other members of its group, the "Group").

General Business Review

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

Strategic report for the year ended 31 December 2021 (continued)

Our proven model has been demonstrated through the economic cycle as seen by the fact that every cohort of loans is expected to deliver positive returns to investors. This resilience of the loan portfolio has proven attractive to institutional investors, with high levels of demand to fund loans in the UK.

As a result of government-guaranteed schemes running through 2021, originations for the year were weighted towards the first half of the year. Following the relaunch of core loans, we saw continued growth quarter on quarter from June 2021.

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

- CBILS – for loans issued under this scheme, the British Business Bank ("BBB") provided an 80% guarantee to lenders, should the loan default, in exchange for a fee from the investors. The BBB paid the origination fees on behalf of borrowers together with the interest due on the loans for the first year. No principal repayments were required in the first year. Thereafter borrowers pay the interest and principal repayments. Investors continue to pay servicing fees.
- RLS – for loans under this scheme, the BBB continued to provide a guarantee to lenders to ensure that there was sufficient availability from lenders to support small businesses, again in exchange for a fee from the investors (which in Funding Circle's case, as with CBILS, was shared proportionately among Funding Circle and its applicable investors, with Funding Circle's share of both the loan amounts and fee being approximately 1% of the total). The loans then have characteristics similar to the core loan product with borrowers paying the origination fees, interest and repayments and investors paying the servicing fees. However the borrower, not the BBB, pays the fees and interest in the first year.

During the year, the Company originated loans totalling £1,972 million (2020: £2,111 million), with loans under management growing by 21% to £3,944 million (2020: £3,271 million) driven by the strong origination performance, especially in H1. Whilst transaction fees were 7% lower than 2020, in line with originations, the strong growth in loans under management drove higher servicing fees and resulted in operating income of £141.4 million (2020: £127.3 million). Operating income also benefitted from £2.1 million of management recharges in relation to the Central European business and £1.3 million in relation to collection fees received on loan recoveries, both recognised within other income.

With improved actual performance and prospects for small businesses, as the economy has opened up, compared to the expectations at 31 December 2020 when the country was still under a full lockdown, the GTL warehouse was able to sell the majority of the loans at an attractive price. With the proceeds, the bank borrowings were repaid and cash was returned to the Company earlier and a greater amount than was anticipated at 31 December 2020, resulting in a fair value gain on the subordinate loan relative to the prior year. Additional distributions made to the Company in relation to the subordinate loan after the principal was substantially repaid from the sale were recognised as 'excess spread' or interest within investment income and drove the higher investment income year-on-year. The same performance and prospects in relation to the loans held in the securitisation vehicle in which the Company holds an investment in the unrated bonds resulted in a fair value gain on the bonds relative to the position in the prior year.

Marketing costs remained at similar levels to 2020 of c.29% of operating income. Other costs increased primarily due to £19.3 million (2020: £nil) of recharges as part of our intragroup transfer pricing arrangement in relation to the US business along with a moderate increase in employment costs as a result of our investment in technology.

The Company generated adjusted EBITDA of £53.4 million (2020: £1.7 million) and an operating profit of £38.9 million (2020: loss of £12.0 million).

Changes to retail lending

In March 2022, the business confirmed to customers the permanent closure of the retail platform for new investments. Retail lending represents only c.5% of Funding Circle Group's total loans under management and has been closed since March 2020.

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

Strategic report for the year ended 31 December 2021 (continued)

Announcement of medium term plan:

In March 2022 we announced our new medium-term plan which is focused on helping small businesses to not only borrow, but pay and spend as well. This will make Funding Circle a multi-product platform, serving a direct and embedded audience.

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

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

Attract more businesses

Strengthen direct and indirect channels, and embed natively in more partner environments through our Application Programming Interface ("API").

We're working on a number of areas, including growing and improving our existing distribution channels, and leveraging our market-leading technology, including embedding our services into our partners' environments.

In the UK, we've created a new capability to enable partners to seamlessly offer Funding Circle loans to SMEs within their own website and we announced two new partners – Capitalise and Funding Options – in 2021, with more to follow in 2022.

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

Say yes to more businesses

Optimise our platform, expand our products and leverage our marketplace for everyone else.

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

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

#1 in new products

Empower small businesses to not only borrow, but to pay and spend as well.

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

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

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

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

Strategic report for the year ended 31 December 2021 (continued)

Analysis of Key Performance Indicators

The Company's key financial performance indicators during the year were as follows:

	2021	2020
	£m	£m
Loans under Management	3,944	3,271
Originations	1,972	2,111
Total income	150.0	133.3
Net income	178.2	100.6
AEBITDA[1]	53.4	1.7
Operating profit/(loss)	38.9	(12.0)
Profit/(loss) before tax	38.4	(12.5)

[1]Adjusted EBITDA ("AEBITDA") is a non-GAAP measure 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. Together with operating (loss)/profit, it is a key measure of Company performance as it allows better interpretation of the underlying performance of the business.

Results

In 2021, loans under management rose by 21% to £3,944 million whilst originations reduced by 7% to £1,972 million. The Company delivered total income growth of 13% to £150.0 million in 2021, benefitting from fair value gains of £28.2 million, continued strong transaction fees of £92.1 million from continued originations and strong servicing fee income of £45.3 million benefitting from servicing the previous years' originations and new originations from this year.

The results of the Company show a profit before tax of £38.4 million (2020: loss of £12.5 million) on total income up £16.7 million to £150.0 million (2020: £133.3 million), representing growth of 13%. Operating expenses increased £26.7 million to £139.3 million (2020: £112.6 million).

As the economic outlook improved and gradual recovery from the impact of Covid-19 materialised, the Company booked a fair value gain of £28.2 million (2020: £32.7 million loss). This gain is split between the Company's indirect investment in SME loans via its subordinated loan with GTL of £26.6 million (2020: £23.8 million loss), its residual holding in unrated bonds of £2.6 million (2020: £9.2 million loss) and is partially offset by investment in CBILS trusts fair value loss of £1.0m (2020: £0.3 million gain). The positive fair value adjustments in 2021 resulted from the relative improvement in the economic outlook and resilient performance of the loans, while the negative adjustments in the prior year were a result of the SME loan portfolios suffering higher default and delinquency rates.

Net income increased by £77.6 million to £178.2 million (2020: £100.6 million) primarily as a result of these fair value adjustments and strong operating income generation.

The Company has continued to be operating profitable since H2 2020 generating an operating profit of £38.9 million (2020: full year loss of £12.5 million) and generated AEBITDA of £53.4 million (2020: £1.7 million).

As at 31 December 2021, the Company had net assets of £138.9 million (2020: £97.9 million) while cash and cash equivalents were £99.4 million (2020: 15.8 million) resulting in a robust balance sheet.

The increase in operating cash flow from a £(0.4) million outflow in 2020 to a £65.4 million inflow in 2021 is driven in part by the timing of associated working capital with net transaction fees of £27.0 million in the prior year which were subsequently received in early 2021 along with strong operating profit generation. The cash position also benefitted from £52.2 million of principal repayments from the subordinate loan with GTL (2020: £4.3 million). The cash generation was partially offset by net investment of £17.8 million (2020: £20.8 million) in CBILS and RLS and core trusts in the financial year as part of the c.1% co-investment requirement.

Strategic report for the year ended 31 December 2021 (continued)

Section 172(1) statement

The Directors recognise that they have a duty under section 172 of the Companies Act 2006 ("Act") to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard, amongst other matters, to the factors set out in section 172(1) of the Act. In discharging their section 172 duties, the Board has regard to such factors, as well as to other factors which they consider relevant to the decision being made (for example, the views of regulators). While the Board accepts that not every decision it makes will result in an equally positive outcome for all of the Company's stakeholders, by considering the Company's purpose, mission and values together with its strategic priorities and having a process in place for decision making, the Directors aim to make sure that the Board's decisions are consistent and do not create unexpected outcomes for stakeholders.

The Company's key stakeholders are its people, its borrowers, the investors in its loans, the communities in which it operates, the shareholders of the Parent company and its regulators (including, in particular, the FCA). The views of, and the impact of the Company's activities on, those stakeholders are an important consideration for the Directors when making relevant decisions.

During 2021 the Board received information to help the Directors understand the interests and views of the Company's key stakeholders and other relevant factors (including those set out in section 172(1) of the Act) when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Company's financial and operational performance, key risks and the outcomes of specific pieces of engagement (for example, the results of culture and customer satisfaction surveys and engagement with the FCA). As a result of this the Board has had an overview of engagement with the Company's stakeholders and other relevant factors which allows the Directors to understand the nature of the stakeholders' concerns and to comply with their section 172 duty to promote the success of the Company.

While the Board engages directly with certain stakeholder groups or on certain issues, this is done in line with similar engagement practice that takes place at a Group level. For further details on the engagement that takes place with the Company's stakeholders so as to enable the Directors to understand the issues to which they must have regard please see pages 38 to 41 of the FCH Annual Report for the year ended 31 December 2021.

In addition, a number of the examples of how the directors of FCH have had regard to the matters in section 172(1)(a)-(f), as set out on pages 75 to 76 of the FCH Annual Report, are equally applicable to the Company and were considered by the Board, in particular:

- in relation to becoming an accredited lender under RLS;
- supporting Circlers through the pandemic and return to office and hybrid working;
- balance sheet strategy;
- appointment of Matthew King and Helen Beck to replace retiring Non-executive Directors of the Group;
- approval of ESG Committee Terms of Reference and strategy;
- appointment of Lisa Jacobs as the Group CEO;
- appointment of Samir Desai as Group Non-Executive Director;
- approval of the Medium-term plan and strategy set up to 2024; and
- monitoring of our instant decision making capabilities and the roll out of FlexiPay.

In the prior year, the Board also kept abreast of the discussions with the FCA on a number of key changes implemented by the Company during 2020 in response to the pandemic, including: accepting partial payments from borrowers; the pause of retail investment (due to retail investors being unable to participate in government loan schemes); forbearance and re-ageing measures for borrowers; and agreeing a prudent position on minimum adequate financial resources, given the increased uncertainty of the macro-economic environment at the time.

Details regarding the Company's policy in respect of providing employees systematically with information on matters of concern to them as employees, consulting employees on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests and in respect of achieving a common awareness of all employees in relation to the financial and economic factors that affect the performance of the Company can be found in pages 24 to 27 and page 40 of the FCH Annual Report.

Strategic report for the year ended 31 December 2021 (continued)

Principal Risks and Uncertainties

The principal risks and uncertainties that the Company faces include:

- Strategic risk
- Economic environment
- Environmental, social and governance risk
- Funding risk
- Balance sheet risk
- Credit risk
- Regulatory risk
- Reputation risk
- Conduct risk/Treating customers fairly
- Process risk
- Information security
- Technology risk
- Data risk
- Financial crime
- Client money risk

These risks and uncertainties are integrated with the principal risks and uncertainties of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 55 to 63 of the 2021 FCH Annual Report.

Going Concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Company and the Group consolidated by the parent company have 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). In making this assessment, the Directors have considered the performance of the Company and the provision of continuing financial support of Funding Circle Holdings plc, a company registered in England and Wales and the immediate parent company of the Company (the "Parent"), and its ability to provide such support.

The Company made a total comprehensive profit of £35.8 million for the year ended 31 December 2021 (2020: loss of £12.7 million).

As at 31 December 2021, the Company had net assets of £138.9 million (2020: £97.9 million). This includes £99.4 million of cash and cash equivalents (2020: £15.8 million). Additionally, within the net assets, the Company holds £44.9 million (2020: £52.9 million) of invested capital in bonds, trusts and subordinated loans some of which is capable of being monetised if liquidity needs arise.

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

The base case scenario assumes:

- the new government-guaranteed Recovery Loan Scheme ("RLS") in the UK is not extended beyond June 2022;

- there remains macroeconomic stress in H1 2022 from inflation, supply chain and ongoing Covid-19-related pressures with a peak in defaults, however volumes of core loans rise in H2 2022 and there is a general recovery; and

- costs and headcount remain relatively flat but with increased investment in technology and risk roles.

Management prepared a severe but plausible downside scenario in which:

- further macroeconomic volatility occurs in H1 2022 following the tapering of government support along with increased inflation and interest rates reducing borrower demand leading to decreased originations;

- investment returns reduce owing to increased funding costs, widening discount rates and deterioration in loan performance;

- an operational event occurring requiring a cash outlay; and

Strategic report for the year ended 31 December 2021 (continued)

- a downside loss scenario is applied to Funding Circle's on-balance sheet investment in SME loans resulting in higher initial fair value losses and lower cash flows to the subordinate tranches of investments it owns.

In this downside scenario sufficient cash is forecast to be available to meet liabilities as they fall due with the support of the parent company guarantee and without the requirement to take significant mitigating actions, restructuring or monetising investments.

The Company does not currently rely on committed or uncommitted borrowing facilities and does not have undrawn committed borrowing facilities available.

Management has reviewed financial covenants the Group must adhere to in relation to its servicing agreements which impact the Company. These are with institutional investors for which there are unrestricted cash, tangible net worth and debt to tangible net worth ratios applicable to the Group and Company. 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 Company 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.

Having made appropriate enquiries, the Directors consider that the Company has the ability to remain in operation for the foreseeable future, as they have confirmed the continuing financial support and the ability to provide that support from FCH for a period not less than 12 months from the date of approval of the Company financial statements and have therefore continued to adopt the going concern basis in preparing financial statements.

Approved by the Board and signed on its behalf by

O White
Director

12 April 2022

Report of the Directors for the year ended 31 December 2021

The Directors present their report on the affairs of the Company together with the audited annual financial statements of the Company and independent auditors' report, for the year ended 31 December 2021. The Company was incorporated on 21 July 2009. It commenced developing a platform to facilitate the raising of finance for businesses in January 2010. The platform became operational in August 2010. The Company became a wholly-owned subsidiary of Funding Circle Holdings plc in February 2010.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:
M King
A D Learoyd
O White
J Le Luel
L Jacobs

Insurance and indemnities

The Parent maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries (including the Company). In addition the Parent indemnifies each Director of the Parent (some of whom are also Directors of the Company) 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 section 234 of the Companies Act 2006.

Financial Risk Management

Details regarding financial risk management objectives and policies are included in note 2 to the financial statements.

Stakeholder engagement

The Strategic Report (page 3) sets out details of the Company's stakeholder engagement, and the effect of such engagement, in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Sustainability, environmental, social and governance

The Company operates under the environmental, social and governance framework applied by the Group, details of which can be found on pages 28 to 37 and 93 to 95 of the FCH Annual Report.

Dividends

No dividends were declared and paid during the current and previous financial year.

Future Developments

Details regarding future developments are included in the Strategic Report on pages 3 to 9.

Post balance sheet events

Subsequent to the balance sheet date, in February 2022, the loans of GTL were sold to another Group entity Funding Circle Trustee Limited ("FCTL") at fair value, in order to reduce the associated costs of holding the loans in a warehouse. FCL provided funding to FCTL under the revolving credit facility in order to fund the purchase of the loans and the proceeds from the net proceeds from the sale of the loans were distributed to FCL as a distribution of interest. The value of the subordinate loan from GTL was reduced to £nil and the GTL entity began the process of being dissolved.

Report of the Directors for the year ended 31 December 2021 (continued)

Employees

The Directors recognise that the quality, commitment and motivation of staff are a key element in the success of the Company. Employees are able to share in this success through the Parent Company's employee share plans (including an all employee share incentive plan and nil cost options for senior management) and the Company encourages its employees to develop their skills through training and continued professional development.

It is the policy of the Company to provide employment on an equal basis irrespective of gender, sexual orientation, marital or civil partner status, gender reassignment, race, colour, nationality, ethnic or national origin, religion or belief, disability or age

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Company's policy for the employment of disabled persons is to provide equal opportunities to develop skills and secure roles relevant for them and their career ambitions. This includes making reasonable adjustments to the workplace to support this. Our recruitment process ensures all applications, including those from disabled persons, are treated equally and fairly.

Research and development

The Company invests in the research and development of technology and software products that enable it to achieve its key performance objective of growing lending to small businesses whilst delivering resilient returns to investors.

Overseas branches

The Company has subsidiaries in the United Kingdom. The Parent has subsidiaries in the United Kingdom (not only the Company and its subsidiaries), the United States of America, Germany, Spain and the Netherlands but the Company and Group had no registered overseas branches during the reporting period or prior year.

Independent Auditors

PricewaterhouseCoopers LLP (the "Auditors") has confirmed its willingness to continue in office and will retain appointment in accordance with section 487 of the Company Act 2006.

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 auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Report of the Directors for the year ended 31 December 2021 (continued)

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by

O White
Director
71 Queen Victoria Street,
London
EC4V 4AY

12 April 2022

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 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 company and of the profit or loss of the company 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 company will continue in business.

The directors are responsible for safeguarding the assets of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditors' report to the members of Funding Circle Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Funding Circle Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2021; the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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 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 company's ability to continue as a going concern.

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. 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.

Independent auditors' report to the members of Funding Circle Ltd (continued)

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 2021 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

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 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 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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the company'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. 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 fee income. Audit procedures performed by the engagement team included:

- review of correspondence with, and reports to, the FCA;
- review of customer complaints to identify any indicators of breaches in laws and regulations;
- enquiries of the Directors, the Chair of the Audit Committee, the Head of Internal Audit and management, including the Company's general counsel and the Company's head of legal and regulatory, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- review of all 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 fee income and posted by unexpected users; and

Independent auditors' report to the members of Funding Circle Ltd (continued)

- challenging significant assumptions and judgements made by management in its accounting estimates.

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.

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Nick Morrison

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2022

Statement of comprehensive income for the year ended 31 December 2021

	Note	2021	2020
		£m	**£m**
Transaction fees		92.1	99.4
Servicing fees		45.3	27.9
Other income		4.0	-
Fee income		141.4	127.3
Investment income		8.9	6.4
Investment expense		(0.3)	(0.4)
Total income		**150.0**	**133.3**
Fair value gains/(losses)		28.2	(32.7)
Net income		**178.2**	**100.6**
Operating expenses	4	(139.3)	(112.6)
Operating profit/(loss)		**38.9**	**(12.0)**
Finance income	6	-	0.1
Finance costs	7	(0.5)	(0.6)
Profit/(loss) before taxation		**38.4**	**(12.5)**
Income tax	8	(2.6)	(0.2)
Profit/(loss) and total comprehensive income/(expense) for the year		**35.8**	**(12.7)**
Profit/(loss) and total comprehensive income/(expense) attributable to:			
Owners of the Parent		35.8	(12.7)

All amounts relate to continuing activities.

The notes on pages 21 to 63 form part of these financial statements.

Balance sheet as at 31 December 2021

	Note	2021 £m	2020 £m
Non-current assets			
Intangible assets	9	18.5	15.8
Property, plant and equipment	10	9.4	12.3
Investment in SME loans (other)	2	1.3	-
Investment in bonds	2	0.3	1.8
Investment in trusts and co-investments	2	37.9	21.2
Investment in subsidiaries	11	2.3	0.3
Loans due from related undertakings	12	3.3	28.4
		73.0	79.8
Current assets			
Trade and other receivables	13	15.9	47.5
Investment in bonds	2	3.9	1.5
Cash and cash equivalents	21	99.4	15.8
		119.2	64.8
Total assets		**192.2**	**144.6**
Current liabilities			
Trade and other payables	14	37.2	32.9
Lease liabilities	10	3.5	3.5
		40.7	36.4
Non-current liabilities			
Provisions	15	0.7	0.7
Lease liabilities	10	6.5	9.6
Loans due to related undertakings	16	5.4	-
		12.6	10.3
Total liabilities		**53.3**	**46.7**
Equity			
Share capital	17	11.9	11.9
Share premium account	17	0.1	0.1
Capital reserve	18	194.0	188.8
Accumulated losses	20	(67.1)	(102.9)
Total equity		**138.9**	**97.9**
Total equity and liabilities		**192.2**	**144.6**

The financial statements on pages 17 to 63 were approved by the Board and authorised for issue on 12.April 2022. They were signed on its behalf by:

O White
Director

Company registration number 06968588

The notes on pages 21 to 63 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2021

	Note	Share capital	Capital Reserve	Share premium	Accumulated losses	Total equity
		£m	£m	£m	£m	£m
Balance at 1 January 2020		**11.9**	**146.1**	**0.1**	**(90.2)**	**67.9**
Loss and total comprehensive expense for the year	20	-	-	-	(12.7)	(12.7)
Capital contribution	18	-	39.0	-	-	39.0
Employee share scheme – value of employee services	18, 19	-	3.7	-	-	3.7
Balance at 31 December 2020		**11.9**	**188.8**	**0.1**	**(102.9)**	**97.9**
Profit and total comprehensive income for the year	20	-	-	-	35.8	35.8
Employee share scheme – value of employee services	18, 19	-	5.2	-	-	5.2
Balance at 31 December 2021		**11.9**	**194.0**	**0.1**	**(67.1)**	**138.9**

The notes on pages 21 to 63 form part of these financial statements.

Statement of cash flows for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Net cash inflow/(outflow) from operating activities	**21**	**65.4**	**(0.4)**
Investing activities			
Purchase of intangible assets	9	(7.6)	(7.5)
Purchase of property, plant and equipment	10	(0.8)	(0.3)
Origination of investment in SME loans (other)	2	(1.3)	-
Cash receipts from investment in SME loans (other)	2	0.2	-
Proceeds from sale of investment in bonds	2	-	4.0
Proceeds from investment in bonds	2	1.8	5.5
Investment in trusts and co-investments	2	(21.1)	(20.9)
Proceeds from investment in trusts	2	3.3	0.1
Interest received	6	-	0.1
Net cash outflow from investing activities		**(25.5)**	**(19.0)**
Net cash inflow/(outflow) from operating and investing activities		39.9	(19.4)
Financing activities			
Funding to subsidiary and related undertakings		(2.5)	(21.4)
Repayment of funding by subsidiary and related undertakings		52.2	5.4
Payment of lease liabilities		(3.5)	(2.6)
Funding from parent undertaking		5.0	58.0
Repayment of funding to related undertakings		(2.5)	-
Repayment of funding to parent undertaking		(5.0)	(19.0)
Net cash inflow from financing activities		**43.7**	**20.4**
Net increase in cash and cash equivalents		**83.6**	**1.0**
Cash and cash equivalents at the beginning of the year		15.8	14.8
Cash and cash equivalents at the end of the year		**99.4**	**15.8**

The notes on pages 21 to 63 form part of these financial statements.

Notes forming part of the financial statements for the year ended 31 December 2021

1 Accounting policies

General information

The Company is a private company, limited by shares, domiciled and incorporated on 21 July 2009 in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The Company is a wholly owned subsidiary of the Parent, Funding Circle Holdings plc. The address of its registered office is given on page 2.

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been applied consistently to the years presented, unless otherwise stated.

Going concern

The Company's business activities together with the factors likely to affect its future development and position are set out in the Principal Activity and General Business Review section of the Strategic report on page 3. Further details of the considerations of severe but plausible downside scenarios as they relate to the Company and the Group consolidated by the parent entity, which supports the Company, are detailed on page 8 in the Going Concern section of the Strategic Report.

The Company made a total comprehensive profit of £35.8 million during the year ended 31 December 2021 (2020: loss of £12.7 million).

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company 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). In making this assessment, the Directors have considered the performance of the Company and the provision of continuing financial support of the Parent and its ability to provide such support.

Having made appropriate enquiries, the Directors consider that the Company has the ability to remain in operation for the foreseeable future, as they have confirmed the continuing financial support and the ability to provide that support by the Parent and have therefore continued to adopt the going concern basis in preparing financial statements.

Basis of preparation

The Company maintains its books and records in sterling ("£") and presents its annual financial statements in conformity with United Kingdom laws and regulations.

On 31 December 2020, International Financial Reporting Standards ("IFRS") as adopted by the European Union at that date were brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards in its financial statements on 1 January 2021. The financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. In the previous year the accounts were prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Standard Interpretations Committee ("IFRS-IC").

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

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company'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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note {3}.

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

Immediate Parent Undertaking

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of the Parent available on its corporate website: https://corporate.fundingcircle.com/investors/results-reports-presentations. The parent entity, FCH, is the only company to consolidate the Company's financial statements.

Significant changes in the current reporting year

The financial position and performance of the Company were affected by the following events and transactions during the year ended 31 December 2021:

i) Sale of UK warehouse loan assets
In November 2021, Funding Circle sold SME loan assets from the warehouse in the UK, GTL, for £111.8 million as part of its strategy of monetising pre-pandemic investments. The bank borrowings associated with the loans were fully repaid using the proceeds and as a result the majority of the principal remaining on the subordinate loan with FCL was repaid.

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

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

This investment is held at FVTPL and interest is recognised within investment income in the statement of comprehensive income while the Company's investment is recognised within investment in trusts and co-investment assets on the balance sheet.

Changes in accounting policy and disclosures

a) *Standards and amendments to existing standards and interpretations effective on or after 1 January 2021 adopted by the Company*

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

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

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

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2021 and not early adopted*

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

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

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

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

Summary of new and amended accounting policies

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

Summary of existing accounting policies

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 loans which are a cost to the government (with the exception of RLS where it remains a cost to the borrower). The contract is 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 marketplace platform and the transaction price is clearly stated in the borrower's contract. Fees are recognised immediately once loans are fully funded on the marketplace and after the loans are accepted by the borrowers. At this point the performance obligation has been met and there are no clawback provisions. Such fees are automatically deducted from the amount borrowed (or subsequently invoiced in the case of government-guaranteed loans with the exception of RLS) and recognised at that point as the Company has the right to consideration and the performance obligation has been satisfied.

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 Company 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 certain government schemes that permit a service fee such as CBILS (though not RLS), where the government bears the cost in the first year. 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 income also includes income from collections charges levied on the recovery of loans. These are recognised as services are performed on an accruals basis. Other income also includes income recognised in relation to intragroup management recharges with other Group entities.

Net income includes the following elements under which the recognition criteria of IFRS 9 and not IFRS 15 are applied:

Investment income includes:

-interest income from investments in bonds, subordinate loans and investments in trusts that the Company holds on balance sheet.

Investment expense includes:

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

-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. All fees are calculated based on the above income recognition policy.

Foreign currency translation

Transactions in currencies other than the functional currency of the entity are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary assets and liabilities and those arising on retranslation are included within operating expenses in the period in which the difference arose.

Exceptional items

Exceptional items are the items of income or expense that the Company 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 Company's financial performance. Such items would include profits or losses on disposal of businesses and costs associated with acquisitions and disposals; major restructuring programmes; significant goodwill or other assets impairments; other particularly significant or unusual items.

Investments in subsidiaries

Investments held as fixed assets are stated at cost less any provision for impairment. Where the recoverable amount of the investment is less than the carrying amount, impairment is recognised.

Interest Receivable

Interest receivable is recognised on an accruals basis within 'Interest income' in the Statement of comprehensive income.

Administrative expenses

Expenses are recognised as an expense in the Statement of comprehensive income in the period in which they are incurred on an accruals basis.

Leases

At inception of a contract, the Company 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 Company 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 re-measurements 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 payment 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 Company under residual value guarantee.

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used, which is the rate that the Company 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 Company:

- 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 is re-measured when there is a change in scope.

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 Company 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 Company. 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.

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.

Lease terms are reassessed if the option is exercised or if a significant event occurs which impacts the assessment of reasonable certainty.

The Company 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 Company 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 Company 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 Company's net investment in the lease and the right-of-use asset from the head lease is de-recognised. Any difference resulting from the de-recognition of the right-of-use asset and recognition of the net investment in the sub-lease 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.

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

Financial instruments

Financial assets

The Company 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 Company'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 ("FVOCI") if they are held within a business model being 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.
- Financial assets that do not meet the criteria to be amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss ("FVTPL"). In addition, the Company 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 loan securities as described below, the Company 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 investments in bonds, investments in trusts and co-investments and subordinated loans receivable from related undertakings, all financial assets are held to collect contractual cash flows.

Investment in SME loans (other)

In certain circumstances the Company buys back loans from investors. These investments in other SME loans 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.

Investment in bonds

Investment in bonds represent Funding Circle Ltd's investment in the bonds issued by the securitisation Special purpose vehicles ("SPVs"). Under risk retention regulations in the UK, Funding Circle as originator of the loans is required to hold a minimum 5% 'vertical slice' of the most senior to most junior tranches of issued notes and this must be held until the maturity of the bond. The Company distinguishes between bonds held in the securitisation vehicle between 'rated senior' and 'unrated junior' notes. Rated notes are measured initially at fair value and subsequently at amortised cost as the criteria for this classification are met under IFRS 9, however unrated notes fail the solely for the purposes of principal and interest (SPPI) test under IFRS 9 due to a concentration of credit risk from the waterfall structure of the SPV compared to the credit risk of the underlying pool of assets and are classified at fair value through profit and loss both initially and subsequently as a result. The senior bonds are subject to impairment provision under the expected credit loss model detailed below.

Subordinated loans receivable from related undertakings

Included within loans receivable from related undertakings are subordinated loans in relation to the Company's funding of Great Trinity Lending 1 DAC ("GTL"). GTL is a warehouse special purpose vehicle used to originate loans for securitisation, using funding from this subordinated loan and a senior debt facility provided by a financial institution. Repayment of loan principal and interest to the senior facility and subordinate loan are governed by a waterfall structure whereby the risk of default is concentrated to the subordinate lender first before the senior lender. The business model in holding the loan by the Company is with the intention of selling financial assets through securitisation of SME loans in GTL. In addition the subordinate loan fails the solely for the purposes of principal and interest (SPPI) test under IFRS 9 due to a concentration of credit risk from the waterfall structure of GTL compared to the credit risk of the underlying pool of SME loan assets. They are therefore classified at fair value through profit and loss both initially and subsequently.

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

Other financial assets

Financial assets recognised in the balance sheet as trade and other receivables are classified as amortised cost. They are recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Cash and cash equivalents are classified as amortised cost with the exception of money market funds which 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 Company 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 ("ECL") (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 ECL (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 Company 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.
- 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 ECL are also recognised, but interest revenue is calculated on the net carrying amount (that is, net of the ECL allowance). The Company 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 Company, 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 Company 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 ECL 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 Company 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 Company derecognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

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.

ABS Bonds

The Company issued bonds through an unconsolidated structured vehicle, however the SPV and bonds are not held on the Company's balance sheet. Transaction costs associated with the issuance of the bonds are deferred to the balance sheet within prepayments and recognised over the lifetime of the bond liability held by the SPV.

Share-based payments

The Parent operates a number of equity-settled share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options and shares) of the Parent. 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, profitability, sales growth targets and remaining an employee of the Company 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 Company revises its estimates 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 Statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Parent issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium in the Parent's financial statements when the options are exercised (and recognised directly in equity in the Company financial statements).

The grant by the Parent of options and shares over its equity instruments to the Company's employees is treated as capital contribution from the Parent. The fair value of employees services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense in the Statement of comprehensive income, with a corresponding credit as an increase in capital contribution from the Parent.

The national insurance contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as cash-settled transaction.

Pension obligations

The Company operates a defined contribution pension scheme. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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 periods. Contributions payable to the Company's pension scheme are charged to the Statement of comprehensive income in the period to which they relate. The Company has no further payment obligations once the contributions have been paid.

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

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 year end date. 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 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 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 affect neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantially 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.

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 estimated 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 as at 31 December 2021 is up to 5 years.

Capitalised Development Costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

Notes forming part of the financial statements for the year ended 31 December 2021(continued)

1 Accounting policies (continued)

- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee 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.

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 improvement is calculated using the straight line method over the lease term.

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Share capital

Ordinary shares are classified as equity where their terms include no contractual obligation to transfer cash or other financial assets to another entity.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management

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

Principal financial instruments

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

- Loans due from and payable to related undertakings
- Investments in SME loans (other)
- Investment in trusts and co-investments
- Investment in bonds
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables; and
- Lease liabilities.

Categorisation of financial assets and financial liabilities

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

31 December 2021	Assets at fair value through profit and loss	Carried at amortised cost	Total
Assets	**£m**	**£m**	**£m**
Investment in SME loans (other)	-	1.3	1.3
Investment in bonds	2.9	1.3	4.2
Investment in trusts and co-investments	37.9	-	37.9
Loans due from related undertakings	2.8	0.5	3.3
Trade and other receivables	-	12.5	12.5
Cash and cash equivalents	40.0	59.4	99.4
	83.6	75.0	158.6
Liabilities			
Trade and other payables	-	23.4	23.4
Loans due to related undertakings	-	5.4	5.4
Lease liabilities	-	10.0	10.0
	-	38.8	38.8

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

31 December 2020

	Assets at fair value through profit and loss	Carried at amortised cost	Total
Assets	**£m**	**£m**	**£m**
Investment in bonds	0.3	3.0	3.3
Investment in trusts and co-investments	21.2	-	21.2
Loans due from related undertakings	28.4	-	28.4
Trade and other receivables	-	44.9	44.9
Cash and cash equivalents	0.5	15.3	15.8
	50.4	63.2	113.6
Liabilities			
Trade and other payables	-	11.8	11.8
Lease liabilities	-	13.1	13.1
	-	24.9	24.9

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, investment in SME loans (other), trade and other receivables, trade and other payables, investment in bonds (senior tranches) and loans and payables/receivables to/from related parties (excluding subordinated loans). Due to their nature, the carrying value of each of the above financial instruments approximates to their fair value.

Financial instruments measured at fair value

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

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

The fair value hierarchy has the following levels:

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

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

The fair value of financial instruments that are not traded in an active market (for example, investments in bonds (junior tranches) 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.

	Fair value measurement using			
31 December 2021	**Quoted prices in active markets (level 1) £m**	**Significant observable inputs (level 2) £m**	**Significant unobservable inputs (level 3) £m**	**Total £m**
Financial assets				
Investment in bonds	-	-	**2.9**	**2.9**
Investment in trusts and co-investments	-	-	**37.9**	**37.9**
Cash and cash equivalents	**40.0**	-	-	**40.0**
Subordinated loans due from related undertakings	-	-	**2.8**	**2.8**
	40.0	-	**43.6**	**83.6**

	Fair value measurement using			
31 December 2020	Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	Total £m
Financial assets				
Investment in bonds	-	-	0.3	0.3
Investment in trusts and co-investments	-	-	21.2	21.2
Cash and cash equivalents	0.5	-	-	0.5
Subordinated loans due from related undertakings	-	-	28.4	28.4
	0.5	-	49.9	50.4

Investment in bonds represents the subordinated tranches of unrated bonds measured at fair value through profit and loss (the rated senior tranches of bonds are measured at amortised cost). The fair value has been estimated by discounting future cash flows in relation to the bonds using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the bonds was £2.9 million at 31 December 2021 (2020: £0.3 million).

Subordinated loans due from related undertakings represents the loan from the Company to Great Trinity Lending 1 DAC (GTL). The loan within GTL is subordinate to a senior lending facility and related interest payments (which was paid down during 2021), senior expenses and service fees. The fair value has been estimated by discounting future cash flows expected from the loan using a discount rate that reflects the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying value of the loan was £2.8 million at 31 December 2021 (2020: £28.4 million).

The most relevant significant unobservable input relates to the default rate estimation and discount rates applied to the fair value calculation, details of which are set out in note 3.

Fair value movements on investment in bonds, investment in trusts and subordinate loans due from related undertakings are recognised through the profit and loss account in fair value gains and losses as part of net income.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

A reconciliation of investment in bonds, trusts and co-investments and subordinate loans held at fair value is shown as follows:

	Investment in bonds	Subordinated loans due from related undertakings	Investment in trusts and co-investments
	£m	£m	£m
Balance as at 1 January 2020	16.6	36.1	-
Additions	-	20.4	20.9
Principal repayments	(3.1)	(4.3)	-
Sale of bonds[1]	(4.0)	-	-
Net (loss) /gain on the change in fair value of financial instruments at fair value through profit and loss during the year	(9.2)	(23.8)	0.3
Balance as at 31 December 2020	**0.3**	**28.4**	**21.2**
Additions	-	-	**21.0**
Principal repayments	-	**(52.2)**	**(3.3)**
Net gain/(loss)on the change in fair value of financial instruments at fair value through profit and loss during the year	**2.6**	**26.6**	**(1.0)**
Balance as at 31 December 2021	**2.9**	**2.8**	**37.9**

[1]In July 2020 the Company sold 95% of its investment in one of the unrated tranches of bonds for £4.0 million which was considered to be the fair value at the time of sale.

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and cash and cash equivalents held at banks.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

The Company's maximum exposure to credit risk by class of financial asset is as follows:

	31 December 2021 £m	31 December 2020 £m
Trade and other receivables:		
- Trade debtors	**1.4**	0.9
- Other debtors	**3.0**	3.2
- Receivables from related undertakings	**2.3**	-
- Rent deposit	**1.6**	1.6
-Accrued income	**4.2**	39.2
Investment in SME loans (other)	**1.3**	-
Investment in bonds	**4.2**	3.3
Investment in trusts and co-investments	**37.9**	21.2
Loans due from related undertakings	**3.3**	28.4
Cash and cash equivalents	**99.4**	15.8

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

Investments in bonds are the Company's retained investment in bonds issued by the unconsolidated securitisation vehicle to satisfy risk retention rules. Due to the waterfall structure of the bonds, the credit risk normally associated with SME loans is skewed towards the subordinate bonds and away from the senior bonds held by the Company, increasing the risk of financial loss associated with subordinate tranches.

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

Individual risk limits for banks and financial institutions are set by external rating agencies. The credit risk on cash and cash equivalents is managed under the Group's treasury policy that stipulates the limits and quantities that the Group must remain within. No credit or counterparty limits were exceeded during the year.

Impairment of financial assets

Financial assets held at amortised cost are required to be assessed for impairment using the expected credit loss ("ECL") model under IFRS 9. The Company holds risk retention investments of 5% of the senior tranches of bonds issued from UK SPVs at amortised cost. The investment in bonds is presented net of the provision for expected credit losses in the balance sheet.

The provision related to each investment in bonds is based on the ECLs associated with the probability of default of that bond in the next 12 months unless there has been a significant increase in credit risk of that bond since origination, taking into account the protection offered by the waterfall structure of the SPV in which they are held resulting in defaults being incurred first against junior tranches of bonds.

As the senior bonds are rated, the Company can monitor the rating of the bonds for an increase in credit risk. It is considered that there has been a significant increase in credit risk if the risk rating of a tranche of bonds falls by a rating band by a rating agency.

The Company defines a default, classified within non-performing, as a bond for which a payment of interest or principal is not made by the due date. Where there has been a significant increase in credit risk or a bond is considered non-performing lifetime ECLs are recognised.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

The Company bands each bond investment using external credit ratings however these are presented on a collective basis as they are derived from the same pool of cash flows.

The expected credit loss % applied at both 12 month and lifetime ECLs are derived from Moody's Idealized Expected Loss Rates for the corresponding 12 month or cumulative lifetime loss rate for a corresponding asset of the same credit rating.

At 31 December 2021	Expected credit loss coverage %	Basis for recognition of ECL	Gross assets subject to provision £m	ECL provision £m
Performing (Credit rating maintained)	0.0%	12-month ECL	1.3	-
Underperforming (Credit rating downgrade one rating band)	0.0%	Lifetime ECL	-	-
Non-performing	0.0%	Lifetime ECL	-	-
		Total	1.3	-

At 31 December 2020	Expected credit loss coverage %	Basis for recognition of ECL	Gross assets subject to provision £m	ECL provision £m
Performing (Credit rating maintained)	0.0%	12-month ECL	2.6	-
Underperforming (Credit rating downgrade one rating band)	14.4%	Lifetime ECL	0.4	0.1
Non-performing	0.0%	Lifetime ECL	-	-
		Total	3.0	0.1

The maximum exposure to credit losses is the gross bond assets subject to provisioning of £1.3 million (2020: £3.0 million).

Under IFRS 9, the Company is required to provide for loans measured at amortised cost under the 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 Company 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 Company 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 Company, 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. The investment in SME loans (other) includes loans which have been brought back from investors and are held at amortised cost. These are measured at amortised cost.

The investment in SME loans (other) includes loans which have been brought back from investors and are held at amortised cost. The gross principal value of the loans at 31 December 2021 is £2.0 million (2020: £0.8 million) of which £1.4 million (2020: £0.8 million) is performing, £0.3 million (2020: £nil) is underperforming, £0.4 million (2020: £nil) is non-performing, and £nil (2020: £nil) is POCI at 31 December 2021.

An allowance for expected credit losses of £0.7 million (35.2%) (2020: £nil (3.0%)) is held against these loans, of which £nil (3.6%) (2020: £nil (3.0%)) is held against performing loans, £0.3 million (100%) (2020: £nil) is held against underperforming loans, and £0.4 million (100%) (2020: £nil) is held against non-performing loans.

The carrying value of the loans totalled £1.3 million (2020: £0.8 million) of which £1.3 million (2020: £0.8 million) was performing, £nil (2020: £nil) was underperforming, and £nil (2020: nil) was non-performing.

An impairment charge of £0.7 million (2020: £nil) was recognised through the statement of comprehensive income in the year to 31 December 2021 within other operating expenses.

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.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

The amounts disclosed in the below tables are the contractual undiscounted cash flows. The maturity analysis of financial instruments at 31 December 2021 and 31 December 2020 is as follows:

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 £m	Carrying amount £m
Financial liabilities							
Loans due to related undertakings	-	-	5.4	-	5.4	-	5.4
Trade and other payables	2.5	20.9	-	-	23.4	-	23.4
Lease liabilities	0.9	2.7	7.1	-	10.7	(0.7)	10.0
	3.4	23.6	12.5	-	39.5	(0.7)	38.8

At 31 December 2020	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 £m	Carrying amount £m
Financial liabilities							
Trade and other payables	1.3	10.5	-	-	11.8	-	11.8
Lease liabilities	0.9	2.6	10.7	-	14.2	(1.1)	13.1
	2.2	13.1	10.7	-	26.0	(1.1)	24.9

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 fair value of the investment in trusts and co-investments and investments in bonds and 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 these instruments. Considerations related to the 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 [3].

(b) Cash flow and fair value interest rate risk

The Company's interest rate risk is associated with cash and cash equivalents and intragroup borrowings that bears interest at 3.5% above the base rate of the Bank of England from the Parent. This exposes the Company to cash flow interest rate risk.

The investment in bonds held by the company pay interest at SONIA + a margin. The company is exposed to cash flow interest rate risk to the extent that SONIA could fall, and also fair value risk on the investment in junior tranches of bonds measured at fair value.

The Company does not use interest rate swaps under which fixed interest liabilities are converted to variable rate or vice versa in order to hedge the fair value interest rate risk. In the Directors' opinion the Company's exposure to foreseeable or significant movement in the Bank of England's base rate or mismatch between fixed rate interest on assets and floating rate interest on liabilities or vice versa is not material and any impact of adverse movement in interest rate is also deemed immaterial.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

The Company's interest risk on financial instruments is limited to interest receivable on investment in bonds, interest receivable on intragroup borrowings/receivables, investments in trusts and co-investments and cash and cash equivalent balances. 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	
	2021	2020	2021	2020	2021	2020
At 31 December	£m	£m	£m	£m	£m	£m
Fixed rate						
Investment in SME loans (other)	-	-	-	-	1.3	-
Investments in trusts and co-investments	-	-	-	-	37.9	21.2
Loans receivable from related undertakings[1]	-	-	2.8	28.4	0.5	-
Floating rate						
Investment in bonds	-	-	-	-	4.2	3.3
Cash and cash equivalents	99.4	15.8	-	-	-	-
	99.4	15.8	2.8	28.4	43.9	24.5

[1]Included within this figure is £2.8 million (2020: £28.4 million) in relation to the subordinate loan to GTL which earns the excess net income from GTL after senior interest and expenses are paid and therefore is neither a fixed or floating interest rate.

The Company has monitored the market and output from industry working groups and regulators which manage the transition to the new benchmark interest rates away from GBP LIBOR to SONIA. In response to the transition the Company has reviewed its agreements and has identified no significant LIBOR exposures and the Company's contracts that reference LIBOR have been amended to reference the alternative benchmark..

(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 Company does not have significant exposure to liquidity, cash flow or interest rate risk and therefore no sensitivity analysis for those risks has been disclosed.

Interest income on bonds is subject to movements in SONIA. However, the bonds are subject to an interest rate cap on SONIA at 2%. A 100bps decrease in SONIA would result in a decrease of projected annual interest income for the year ended 31 December 2022 of £0.1 million.

(d) Foreign exchange risk

The Company transacts with other subsidiaries of the Group and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar, the UK pound and the euro. Foreign exchange risk arises from transfer pricing arrangements and intra-group payables and receivables.

The Group's policy (to which the Company adheres) 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.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Financial risk management (continued)

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 table below sets out the Company's currency exposures from financial assets and liabilities held by the Company in currencies other than its functional currencies and resulting in exchange movements in the income statement and balance sheet.

	31 December 2021			31 December 2020		
	US dollars £m	EUR £m	Total £m	US dollars £m	EUR £m	Total £m
Intra-group liabilities	**(20.8)**	**(4.0)**	**(24.8)**	(0.5)	(9.1)	(9.6)

The Company assessed the sensitivity to a 5% depreciation and 5% appreciation in pound sterling against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to senior management personnel and represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis excludes quasi-equity loans to foreign operations within the Group.

The Company's sensitivity to fluctuations in foreign currencies is related to the US dollar and euro liabilities due to other Group subsidiaries.

	Appreciation in pound sterling		*Depreciation in pound sterling*	
	Income statement 2021 £m	Income statement 2020 £m	Income statement 2021 £m	Income statement 2020 £m
US dollars	**(1.0)**	-	**1.1**	-
Euros	**(0.2)**	(0.4)	**0.2**	0.5
Total	**(1.2)**	(0.4)	**1.3**	0.5

Capital management

The Company considers its capital to comprise its ordinary share capital and share premium less its accumulated retained losses. Quantitative detail is shown in the statement of changes in equity.

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 shareholder 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 Company and the Parent 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 to confirm that the Company has adequate resources to meet its working capital requirements.

The Company is subject to externally imposed capital requirements by the Financial Conduct Authority but these are lower than internally set requirements. During the period the Company 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 3.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's financial statements requires management 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 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 Company in the financial statements have been applied on a consistent basis with the financial statements for the year ended 31 December 2020.

Critical judgements

Loans originated through the platform

The Company originates SME loans through its platform which are funded primarily by banks, asset managers, other institutional investors, funds, national entities, retail investors or by usage of its own capital. Judgement is required to determine whether these loans should be recognised on the Company's balance sheet. Where the Company has legal and beneficial ownership to the title of those SME loans, they are recognised on the Company'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 Company's accounting policies and have the most significant effect on the amounts recognised in the financial statements.

Fair value of financial instruments (Note 2)

At 31 December 2021, the carrying value of the Company's financial instrument assets held at fair value was £83.6 million (2020: £50.4 million).

In accordance with IFRS 13 Fair Value Measurement, the Company categorises financial instruments carried on the 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 judgement 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.

In the prior year, the most relevant significant unobservable input related to the default rates and discount rates applied to the fair value calculation of the subordinate loan receivable from GTL. In light of the repayment of the majority of the subordinate loan from GTL in the year to 31 December 2021, the fair value of the financial instrument is no longer considered to be materially sensitive to unobservable inputs and is not subject to significant estimation uncertainty.
The estimation uncertainty with regards to the investment in trusts and co-investments, investments in bonds held at fair value and money market funds within cash and cash equivalents are not considered to be significant at 31 December 2021. As a result no sensitivity is disclosed.

Fair value movements on investment in bonds and subordinate loans due from related undertakings are recognised through the profit and loss account in fair value gains and losses as part of net income.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

4 Operating expenses

	2021	2020
	£m	£m
Expenses by nature		
Depreciation	**3.7**	3.5
Amortisation	**4.9**	4.9
Impairment of investment in subsidiary	-	0.2
Employment costs (including contractors)	**55.1**	47.7
Marketing costs (excluding employment costs)	**40.4**	37.1
Data and technology	**3.6**	4.3
Intragroup transfer pricing charges	**19.3**	-
Other expenses	**12.3**	14.9
	139.3	112.6

Audit fees payable to the company's auditors for the statutory audit of the Company financial statements and client money audits were £300,000 and £90,000 respectively (2020: £254,000 and £80,000). Fees for other assurance related services were £138,000 (2020: £115,000).

Impairment of investment in subsidiary: During 2020 the Company assessed the carrying value of the investment in relation to the subsidiary undertaking Funding Circle Trustee Limited and determined that this exceeded the value in use resulting in £0.2 million of impairment to a carrying value of £0.3 million. There was no cash impact from the impairment.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

5 Employment costs and employees

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

	2021	2020
	£m	£m
Wages and salaries	44.7	42.7
Social security costs	5.0	4.6
Other pension costs	1.7	1.1
Share-based payments	6.4	4.3
Total employee benefit expense	57.8	52.7
Contractors costs	4.5	2.4
Less: Capitalised development costs	(7.2)	(7.4)
	55.1	47.7

Share-based payments above includes the associated social security costs of £1.2 million (2020: £0.5 million).

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

	2021	2020
	Number	Number
Product & technology	163	146
Operations, support and administrative	462	445
	625	591

In addition to the employees above, the average monthly number of contractors during the year was 64 (2020: 33).

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

6 Finance income

	2021	2020
	£m	£m
Interest on bank deposits	-	0.1
	-	0.1

7 Finance costs

	2021	2020
	£m	£m
Interest on lease liabilities	0.5	0.6
	0.5	0.6

8 Income tax

The Company is subject to all taxes applicable to a commercial company in the United Kingdom. The UK business profits of the Company are subject to UK income tax at the standard corporation tax rate of 19% (2020: 19%).

	2021	2020
	£m	£m
Current tax		
Current tax on profits for the year	2.7	0.2
Adjustment to prior year	(0.1)	-
Total current tax	2.6	0.2
Deferred tax		
Deferred tax on profits for the year	-	-
Adjustment to prior year	-	-
Total deferred tax	-	-
Total tax charge	2.6	0.2

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

8 Income tax (continued)

The above tax charge represents the current year tax liability on the Company's total taxable income and true up of tax deducted from the RDEC receivable for 2019 and 2020. In the prior year, the tax charge represents the amount of tax deducted from the RDEC receivable for 2020.

The Company's tax charge for the year can be reconciled to the profit/(loss) before tax shown per the Statement of comprehensive income as follows:

Factors affecting the tax charge for the year:

	2021	2020
	£m	£m
Profit/(loss) before tax	**38.4**	(12.5)
Taxation on profit/(loss) before tax at 19% (2020: 19%)	**7.3**	(2.4)
Effects of:		
Research and development	**(0.6)**	0.2
Non-taxable/non-deductible expenses	**(0.1)**	0.1
UK-UK transfer pricing adjustments	**0.1**	(0.1)
Temporary differences not recognised	**0.1**	2.3
Utilisation of tax losses	**(4.2)**	-
Impairment charge	**-**	0.1
Total tax charge for the year	**2.6**	0.2

The effective tax rate for the year was 6.8% (2020: (1.6%)).

The statutory UK corporation tax rate is currently 19% (effective 1 April 2020). The UK Government announced on 3 March 2021 that the rate of corporation tax will be increased to 25% from 1 April 2023. This measure was substantively enacted on 24 May 2021.

The Group has recognised a deferred tax liability of £2.6 million (2020: £1.5 million) relating to the accelerated capital allowances. The increase in the deferred tax liability is due to the treatment of the capitalised development spend for the purposes of RDEC claim.

A deferred tax asset relating to unrelieved tax losses of £2.6 million (2020: £1.5 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.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

8 Income tax (continued)

Unrecognised deferred tax assets

	31 December 2021 £m	31 December 2020 £m
Carry forward losses	**50.6**	70.2
Deferred stock options	**12.1**	7.1
Others	**0.2**	0.4
Unrecognised temporary differences	**62.9**	77.7

Based on the temporary differences noted above, there are total unrecognised deferred tax assets of £12.7 million (2020: £13.3 million).

The Company has unrelieved tax losses of £50.6 million (2020: £70.2 million) in respect of trading losses that are available for offset against future taxable profits. There is not an expiry date as to when these losses can be utilised in the UK. The Company has not recognised a deferred tax asset in respect of these losses as there is not sufficient visibility of suitable profits being generated to utilise these losses.

Factors affecting the tax charge in future years

Factors that may affect the Company's future tax charge include the geographic location of the Company's earnings, the tax rates in those locations, changes in tax legislation and the use of brought forward tax losses. The calculation of the Company's total tax charge involves a degree of estimation and judgement with respect to the recognition of any deferred tax asset.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

9 Intangible assets

	Capitalised development costs	Computer software	Total
	£m	£m	£m
Cost			
At 1 January 2020	25.0	1.2	26.2
Additions	7.4	0.1	7.5
Disposals	(7.5)	(0.3)	(7.8)
At 31 December 2020	24.9	1.0	25.9
At 1 January 2021	24.9	1.0	25.9
Additions	7.5	0.1	7.6
Disposals	(0.6)	(0.2)	(0.8)
At 31 December 2021	31.8	0.9	32.7
Accumulated Amortisation			
At 1 January 2020	12.2	0.8	13.0
Charge for the year	4.7	0.2	4.9
Disposals	(7.5)	(0.3)	(7.8)
At 31 December 2020	9.4	0.7	10.1
At 1 January 2021	9.4	0.7	10.1
Charge for the year	4.8	0.1	4.9
Disposals	(0.6)	(0.2)	(0.8)
At 31 December 2021	13.6	0.6	14.2
Carrying amount			
At 31 December 2021	**18.2**	**0.3**	**18.5**
At 31 December 2020	15.5	0.3	15.8

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

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

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

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

	31 December 2021	31 December 2020
	£m	£m
Property, plant and equipment (owned)	2.1	2.7
Right-of-use assets	7.3	9.6
	9.4	12.3

Reconciliation of amount recognised in the balance sheet:

	Leasehold improvements	Computer equipment	Furniture and fixtures	Right of use assets (property)	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2020	4.5	2.8	1.4	22.3	31.0
Additions	0.1	0.2	-	-	0.3
Disposals	(0.1)	(1.2)	(0.1)	-	(1.4)
At 31 December 2020	4.5	1.8	1.3	22.3	29.9
At 1 January 2021	4.5	1.8	1.3	22.3	29.9
Additions	0.1	0.7	-	-	0.8
Disposals	-	(0.7)	(0.1)	-	(0.8)
At 31 December 2021	4.6	1.8	1.2	22.3	29.9
Accumulated depreciation					
At 1 January 2020	1.9	2.2	0.9	10.5	15.5
Disposals	(0.1)	(1.2)	(0.1)	-	(1.4)
Charge for the year	0.7	0.4	0.2	2.2	3.5
At 31 December 2020	2.5	1.4	1.0	12.7	17.6
At 1 January 2021	2.5	1.4	1.0	12.7	17.6
Disposals	-	(0.7)	(0.1)	-	(0.8)
Charge for the year	0.7	0.4	0.3	2.3	3.7
At 31 December 2021	3.2	1.1	1.2	15.0	20.5
Carrying amount					
At 31 December 2021	**1.4**	**0.7**	**-**	**7.3**	**9.4**
At 31 December 2020	2.0	0.4	0.3	9.6	12.3

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

10 Property, plant and equipment, right-of-use assets and lease liabilities (continued)

Lease liabilities:

Amounts recognised on the balance sheet were as follows:

	31 December 2021	31 December 2020
	£m	£m
Current	3.5	3.5
Non-current	6.5	9.6
Total	10.0	13.1

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

	2021	2020
	£m	£m
Depreciation charge of right of use assets (property)	2.3	2.2
Interest expense (included in finance costs)	0.5	0.6

The total cash outflow for leases (excluding short-term and low-value leases) in 2021 was £3.5 million (2020: £2.6 million).

A maturity analysis illustrating the undiscounted contractual cash flows of lease liabilities is included within the liquidity risk disclosure within note 2.

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

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

11 Investments in subsidiaries

Investments in subsidiary undertakings are accounted for at cost less impairment, which is the fair value of the consideration paid.

The Company's share of the results of its subsidiaries, all of which are unlisted, and their net assets, are as follows:

		2021				2020			
Name	Country of Incorporation	Net Assets/ (Liabilities)	Revenues	Gain/ (loss)	Interest held	Net Assets/ (Liabilities)	Revenues	(Loss)/ gain	Interest held
		£	£	£	%	£	£	£	%
Funding Circle Trustee Limited	England & Wales	718,537	349,229	384,748	100	333,789	42,179	(200,120)	100
Funding Circle Property Finance Limited	England & Wales	(1,373)	-	86,518	100	(87,890)	-	274	100
Funding Circle Asset Finance Limited	England & Wales	(2,154)	-	3,742	100	(5,896)	-	(274)	100
Made To Do More Limited	England & Wales	1	-	-	100	1	-	-	100
Funding Circle Focal Point Lending Limited	England & Wales	1	-	-	100	1	-	-	100
Funding Circle BB Limited	England & Wales	1	-	-	100	1	-	-	100
Funding Circle Eclipse Lending Limited	England & Wales	1	-	-	100	1	-	-	100
Funding Circle Horizon Lending Limited	England & Wales	1,945,670	77,908	(54,330)	100	-	-	-	-

The registered address of the above subsidiaries is 71 Queen Victoria Street, London, EC4V 4AY.

In addition Great Trinity Lending 1 DAC is a structured warehouse entity incorporated in Ireland in the year which holds SME loan assets in a warehouse. It is a bankruptcy remote special purpose vehicle and as such there is no requirement for the Company to provide support to the entity. The entity's activities are not governed by voting rights, however the Company has an interest in the entity based on the purpose and design of the entity, 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 in the returns from the entity. The registered address is 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

12 Loans due from related undertakings

	31 December 2021	31 December 2020
	£m	£m
Great Trinity Lending 1 DAC	2.8	28.4
Funding Circle Horizon Lending Limited	0.5	-
	3.3	28.4

The Company continued to provide revolving loan facilities with Funding Circle Trustee Limited ("FCTL") for £2 million and Funding Circle Focal Point Lending Limited ("FCFPLL") for £1 million. Under the terms of the loan agreements, any drawn amount under the facilities bears interest at 3.5% above the base rate of the Bank of England and is repayable with the principal amount at the end of the facilities term of 5 years expiring on 31 December 2024 and 28 February 2025 respectively. At the year-end, FCTL and FCFPLL have drawn down £nil of their respective facilities (2020: £nil).

Total interest income of £nil (2020: £0.1 million) in relation to FCTL funding has been recognised in the Statement of comprehensive income. The carrying amount of these loans approximates to their fair value.

During the year, the Company commenced a revolving loan facility for £4 million with Funding Circle Horizon Lending Limited ("FCHLL"), a subsidiary of the Company. Any drawn amount under the facilities bears interest at 3.5% above the base rate of the Bank of England and is repayable with the principal amount at the end of the facilities term of 5 years on 20th December 2026. At the year-end, the balance drawn down by FCHLL was £0.5 million.

The Company has provided Great Trinity Lending 1 DAC (GTL) with a subordinated loan facility for the purpose of originating loans within the warehouse entity to be securitised at a later date in separate securitisation vehicles. The facility granted does not charge a set rate of interest but pays excess cash according to a waterfall structure within GTL to the Company. This interest paid to the Company by GTL is treated as investment income in the Company. This facility was substantially repaid during the year, with excess cash continuing to be paid to the Company as interest.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

13 Trade and other receivables

	31 December 2021 £m	31 December 2020 £m
Trade receivables	**1.4**	0.9
Other receivables	**3.0**	3.2
Prepayments	**3.4**	2.6
Accrued income[1]	**4.2**	39.2
Rent deposit	**1.6**	1.6
Receivables from related undertakings	**2.3**	-
	15.9	47.5

[1] Includes £nil (2020: £36.2 million) in relation to transaction fees receivable. Accrued income outstanding at the start of the year was subsequently collected.

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

Receivables from related undertakings are interest free and repayable on demand.

The rental deposits are in respect of the Company's property leases which expire over the next five years.

No trade receivables were overdue or impaired.

14 Trade and other payables

	31 December 2021 £m	31 December 2020 £m
Trade payables	**1.7**	0.9
Taxes and social security costs	**4.2**	3.0
Other creditors	**0.8**	0.4
Accruals and deferred income	**9.6**	18.1
Payables to related undertakings	**20.9**	10.5
	37.2	32.9

Payables to related undertakings are interest free and repayable on demand.

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

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

15 Provisions

	Dilapidation
	£m
At 1 January 2020	0.7
Additional provision	-
At 31 December 2020	0.7
Additional provision	-
At 31 December 2021	0.7

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.

16 Loan payable to Parent and related undertakings

The Company continues to operate a loan facility agreement with the Parent. Under the terms of the agreement, the Parent will provide a revolving credit facility of a total principal amount not exceeding £20.0 million to the Company. Any drawn amount under the facility bears interest at 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 5 years on 5th August 2025. The facility was drawn by £nil (2020: £nil) at the balance sheet date.

In the same period, the Company has drawn down £5.0 million (2020: £19.0 million) of additional funding under the above facility agreement. Total interest costs of £nil million (2020: £nil million) have been recognised in the Statement of comprehensive income. The carrying amount of this loan approximates to its fair value.

During the year, the Company has settled certain amounts due under the intercompany loan obligations cumulative of interest of £5.0 million (2020: £19.0 million) with Funding Circle Holdings plc. £5.0 million of this was settled in cash (2020: £10.0 million) and £nil (2020: £9.0 million) settled via a capital contribution from Funding Circle Holdings plc and therefore there were no cash flows.

	31 December 2021	31 December 2020
Loans payable to related undertakings	**£m**	£m
Funding Circle CE GmbH	**4.6**	-
Funding Circle Nederland BV	**0.8**	-
	5.4	-

During the year the Company converted its intercompany payable balance with Funding Circle CE GmbH into a term loan facility of a total principal amount of €7.1 million. Any drawn amount under the facility bears interest at 3.5% above the euro short-term rate and is repayable at the end of the facility term of 5 years on 31st December 2025. The Company repaid €1.7 million (2020: £nil) in the year. Funds drawn down under the facility agreement are €5.4 million (2020: €nil) as at the balance sheet date.

During the year the Company converted its intercompany payable balance with FC Nederland BV into a term loan facility of a total principal amount of €2.1 million. Any drawn amount under the facility bears interest at 3.5% above the euro short-term rate and is repayable at the end of the facility term of 5 years on 31st December 2025. The Company repaid €1.1 million (2020: £nil) in the year. Funds drawn down under the facility agreement are €1.0 million (2020: €nil) as at the balance sheet date.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

17 Share capital and share premium account

Share capital	31 December 2021 £m	31 December 2020 £m
Authorised		
Ordinary shares of £1 each:	**Unlimited**	Unlimited
Called up, allotted and fully paid		
Ordinary shares of £1 each: 11,931,089 (2020: 11,931,089) issued	**11.9**	11.9

Share premium account	2021 £m	2020 £m
Balance at 1 January and 31 December	**0.1**	0.1

18 Capital reserve

	2021 £m	2020 £m
Balance at 1 January	**188.8**	146.1
Capital contribution	-	39.0
Employee share schemes – value of employee services	**5.2**	3.7
Balance at 31 December	**194.0**	188.8

The Parent remains the sole shareholder of the Company.

In the prior financial year ended 31 December 2020 the company received funding of £39.0 million from the Parent to meet its working capital requirements and to fund the loan to Great Trinity Lending 1 DAC to originate SME loans for securitisation. The Company received no funding from the Parent in 2021.

The cumulative value of options and shares granted by the Parent over its equity instruments to the Company's employees is treated as capital contribution of £5.2 million (2020: £3.7 million) from the Parent.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

19 Share-based payment

The Parent operates share schemes for all employees of the Group. The terms of the main current schemes from which the Company's employees benefit are as follows:

Post-IPO Employee Share Plan

Since FCH's Admission on the London Stock Exchange to the year ended 31 December 2019, the Parent company operated a single discretionary share-based long-term incentive plan (the "LTIP"). In November 2020, the Parent company introduced a Share Incentive Plan ("SIP") approved by HMRC, which includes free shares, partnership shares and matching shares. 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 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 of FCH which are subject to performance conditions. Refer to the Remuneration Report in the FCH Annual Report for the year ended 31 December 2021 for further details. Any performance condition may be amended or substituted if one or more events occur which cause the Group 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 of FCH, 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 of FCH vest at the end of three years subject to achievement of performance conditions. Further details are shown in the Remuneration Report in the FCH Annual Report for the year ended 31 December 2021.

The Group 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 vest or, if applicable, the end of the Holding Period until the tenth anniversary of the grant date, or such earlier date as the Group Board determines.

Cessation of employment

LTIP Options may normally be exercised to the extent vested for a period of six months after ceasing employment or twelve months after death (or such other period as the Group Board may determine).

Post-IPO – SIP

Form of SIP awards

The FCH 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.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

19 Share-based payment (continued)

Free shares

Under the SIP, UK employees are eligible to receive up to a maximum of £3,600, or ten percent 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.

Partnership and 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 can be purchased through monthly contributions (or an annual lump sum contribution). 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

Participants who hold vested Pre-IPO Options may exercise their Pre-IPO Options following the Parent's - Funding Circle Holdings plc's - listing on the London Stock Exchange. Unvested Pre-IPO Options will continue to vest according to their current Service Condition schedule.

EMI Options

Prior to June 2014, the Parent issued options to UK employees under the EMI Options scheme. Since then, the Company is not eligible to issue under the scheme.

Unapproved Options

The Parent previously operated an unapproved option scheme for all employees of the Group. In accordance with standard vesting terms, the full award vested 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.

Growth shares with "shadow" Unapproved Options

Growth Shares were an upfront award of 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

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

19 Share-based payment (continued)

"shadow" Unapproved Options vested according to the Company's standard vesting terms, as discussed in the description of Unapproved Options above. All 'shadow' Unapproved Options lapsed on IPO.

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).

Charge for the year

Included in operating expenses is a charge for share-based payments and associated social security costs of £6.4 million (2020: £4.3 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

Movement in the 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		Total	
	Number and WAEP[1]		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2020	481,312	0.027	6,372,114	0.276	-	-	5,992,074	-	12,845,500	0.137
Granted during the period	-	-	-	-	2,519,616	-	7,731,019	-	10,250,635	-
Exercised during the period	(170,000)	0.027	(423,156)	0.296	-	-	(586,020)	-	(1,179,176)	0.110
Forfeited during the period	(5,000)	0.027	(468,521)	0.179	(20,319)	-	(1,721,808)	-	(2,215,648)	0.038
Outstanding at 31 December 2020	306,312	0.027	5,480,437	0.309	2,499,297	-	11,415,265	-	19,701,311	0.095

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		Total	
	Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2021	306,312	0.027	5,480,437	0.309	2,499,297	-	11,415,265	-	19,701,311	0.095
Granted during the period	-	-	-	-	1,330,430	-	5,257,372	-	6,587,802	-
Exercised during the period	-	-	(1,057,545)	0.190	(32,993)	-	(647,052)	-	(1,737,590)	0.116
Forfeited during the period	(7,312)	0.027	(2,182,597)	0.782	(949,109)	-	(1,524,283)	-	(4,663,301)	0.366
Outstanding at 31 December 2021	299,000	0.027	2,240,295	(0.096)	2,847,625	-	14,501,302	-	19,888,222	(0.002)

1. Weighted average exercise price

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

19 Share-based payment (continued)

Movement in the share plans (continued)

No transaction costs were incurred during both the current and previous financial year on the exercise of share options.

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		Total	
Range of exercise prices	Number and WARCL[2]		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0 - £0.008	-	-	70,000	6.5	2,847,625	-	14,501,302	7.3	17,418,927	6.1
£0.009 - £0.176	299,000	1.3	214,299	1.5	-	-	-	-	513,299	1.3
£0.177 - £0.471	-	-	1,620,243	5.6	-	-	-	-	1,620,243	5.6
£0.472- £1.75	-	-	335,753	6.4	-	-	-	-	335,753	6.4
	299,000	1.3	2,240,295	5.4	2,847,625	-	14,501,302	7.3	19,888,222	6.0

The following table summarises information about the share awards outstanding at 31 December 2020:

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		Total	
Range of exercise prices	Number and WARCL[2]		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0 - £0.008	-	-	2,220,000	7.5	2,499,297	-	11,415,265	7.4	16,134,562	6.2
£0.009 - £0.176	306,312	2.2	784,418	1.1	-	-	-	-	1,090,730	1.4
£0.177 - £0.471	-	-	2,131,391	7.2	-	-	-	-	2,131,391	7.2
£0.472- £1.75	-	-	344,628	7.4	-	-	-	-	344,628	7.4
	306,312	2.2	5,480,437	6.4	2,499,297	-	11,415,265	7.4	19,701,311	6.0

[2] Weighted average remaining contractual life

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

19 Share-based payment (continued)

LTIP Awards

Since all LTIP Awards were made post-IPO, the Company has used the share price of FCH as the fair value of the LTIP Awards granted during the year to employees.

20 Accumulated losses

	£m
Balance at 1 January 2020	**(90.2)**
Loss and total comprehensive expense for the year	(12.7)
Balance as at 31 December 2020	**(102.9)**
Profit and total comprehensive income for the year	35.8
Balance as at 31 December 2021	**(67.1)**

21 Notes to the cash flow statement

Cash inflow/(outflow) from operations

	2021	2020
	£m	£m
Profit/loss before taxation	38.4	(12.5)
Adjustments for:		
Depreciation of property, plant and equipment	3.7	3.5
Amortisation of intangible assets	4.9	4.9
Impairment of investments in subsidiaries	-	0.2
Non-cash employee benefits expense – share-based payments and associated social security costs	6.2	4.2
Fair value (gains)/losses	(28.2)	32.7
Finance income	-	(0.1)
Finance costs	0.5	0.6
Other non-cash movements	(1.6)	(0.2)
Changes in working capital:		
Movement in trade and other receivables	32.3	(37.5)
Movement in trade and other payables	12.2	3.8
Corporate tax paid	(3.0)	-
Net cash inflow/(outflow) from operations	65.4	(0.4)

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

21 Notes to the cash flow statement (continued)

Cash and cash equivalents

	31 December 2021 £m	31 December 2020 £m
Cash and cash equivalents	**99.4**	15.8

The cash and cash equivalents comprises 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 these assets is approximately equal to their fair value. As at 31 December 2021, money market funds totalled £40.0 million (2020: £0.5 million).

Analysis of changes in liabilities from financing activities

	1 January 2021 £m	Cash flow £m	Other non-cash movements £m	31 December 2021 £m
Loans due to related undertakings	-	2.5	(7.9)	**(5.4)**
Lease liabilities	(13.1)	3.5	(0.4)	**(10.0)**
Liabilities from financing activities	(13.1)	**6.0**	**(8.3)**	**(15.4)**

	1 January 2020 £m	Cash flow £m	Other non-cash movements £m	31 December 2020 £m
Lease liabilities	(16.0)	2.6	0.3	(13.1)
Liabilities from financing activities	(16.0)	2.6	0.3	(13.1)

22 Operating lease arrangements

	2021 £m	2020 £m
Lease payments under operating leases recognised as an expense in the year	-	-

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases of £nil (2020: £nil).

23 Dividends per share

No dividends were declared and paid during the current or previous financial year.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

24 Related party transactions

During the year, the Company drew £5.0 million (2020: £19.0 million) and repaid £5.0 million (2020: £19.0 million) of funds due to the Parent under the facility agreement. Funds drawn down under the facility agreement as at 31 December 2021 are £nil (2020: £nil). Total interest charges of £nil (2020: £nil) have been recognised in the Statement of comprehensive income. The Company received cash capital contributions from the Parent, totalling £nil (2020: £39.0 million). In addition to the above, the Company recognised a capital contribution from the Parent of £5.1 million (2020: £3.7 million) representing the service cost for the employees under the Parent's share option schemes. The Company also made payments for amounts of £0.4 million (2020: £nil) to third parties on behalf of the Parent. The Company made payments of £1.2 million (2020: £0.4 million) and received payments of £nil (2020: £ nil) in settlement of the intercompany balance with the Parent during the year related to expenses bourne by the entities on each other's behalf.

During the year, the Company made payments of £0.8 million (2020: £0.1 million) to third parties on behalf of Funding Circle USA, Inc. (an affiliate company owned by the Parent) and received payments of £2.4 million (2020: £1.2 million) made by the affiliate to third parties on behalf of the Company. The Company also made payments of £0.7 million (2020: £7.0 million) and received payments of £nil (2020: £nil) in settlement of the intercompany balance with affiliates during the year. The FCH Group operates transfer pricing arrangements resulting in management recharges. During the year ended 31 December 2021 the Company recognised £19.3 million (2020: £nil) of expense in relation to recharges related to Funding Circle USA, Inc.

During the year, the Company funded £nil (2020: £0.1 million) into FCTL under the existing revolving loan facility. The Company received payments of £nil (2020: £0.1 million) in settlement of the loan facility. Interest income of £nil (2020: £nil) was recognised in respect of balances owing under the facility agreement with FCTL. The Company impaired its investment in FCTL by £nil (2020: £0.2 million).

During the year, the Company funded £0.5 million (2020: £nil) into Funding Circle Horizon Lending Limited (a subsidiary of the Company) under the existing revolving loan facility. The Company received payments of £nil (2020: £nil) in settlement of the loan facility. Funds drawn down under the facility agreement as at 31 December 2021 are £0.5 million (2020: £nil). Interest income of £nil (2020: £nil) was recognised in respect of balances owing under the facility agreement with FCHLL. The Company funded a further £2.0 million into FCHLL via capital contributions.

During the year, the Company funded £nil (2020: £1.0 million) into FCFPL under the existing revolving loan facility. The Company received payments of £nil (2020: £1.0 million) in settlement of the loan facility. Interest income of £nil (2020: £nil) was recognised in respect of balances owing under the facility agreement with FCFPL.

During the year the Company has recognised interest income within investment income of £1.1 million (2020: £4.2 million) in respect of balances owing under the subordinated loan agreement with GTL.

During the year the Company paid expenses for amounts of £nil (2020: £0.5 million) on behalf of Funding Circle CE GmbH (affiliate company owned by the parent) and received payments of £nil (2020: £0.1 million) made by the affiliate to third parties on behalf of the Company. The Company also made payments of £nil (2020: £1.9 million) in settlement of the intercompany balance with Funding Circle CE GmbH. The FCH Group operates transfer pricing arrangements resulting in management recharges. During the year ended 31 December 2021 the Company recognised £2.1 million (2020: £nil) of income in relation to recharges related to Funding Circle CE GmbH.

In the same period the Company converted its intercompany balance with Funding Circle CE GmbH into a term loan facility of a total principal amount of €7.1 million. Any drawn amount under the facility bears interest at 3.5% above the euro short-term rate and is repayable at the end of the facility term of 5 years on 31st December 2025. The Company repaid €1.7 million (2020: £nil) in the year. Funds drawn down under the facility agreement are €5.4 million (2020: €nil) as at the balance sheet date.

During the year the Company also made payments of £nil (2020: £1.8 million) in settlement of the intercompany balance with FC Nederland BV (affiliate company owned by the parent). In the same period the Company converted its intercompany balance with FC Nederland BV into a term loan facility of a total principal amount of €2.1 million. Any drawn amount under the facility bears interest at 3.5% above the euro short-term rate and is repayable at the end of the facility term of 5 years on 31st December 2025. The Company repaid €1.1 million (2020: £nil) in the year. Funds drawn down under the facility agreement are €1.0 million (2020: €nil) as at the balance sheet date.

Amounts included in short-term receivables and payables are interest free and repayable on demand.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

24 Related party transactions (continued)

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		**Amounts owed to related parties**	
	31 December 2021	31 December 2020	**31 December 2021**	31 December 2020
	£m	£m	**£m**	£m
Short-term payables/receivables:				
Funding Circle USA, Inc.	-	-	**20.8**	0.5
Funding Circle Holdings plc	**0.1**	-	-	0.8
Funding Circle CE GmbH	**2.1**	-	-	7.2
Funding Circle Nederland BV	**0.1**	-	-	1.9
Funding Circle Global Partners Limited	-	-	**0.1**	0.1
Inter-company loans:				
FC Horizon Lending Limited	**0.5**	-	-	-
Funding Circle CE GmbH	-	-	**4.6**	-
Funding Circle Nederland BV	-	-	**0.8**	-
Great Trinity Lending 1 DAC	**2.8**	28.4	-	-
	5.6	28.4	**26.3**	10.5

During the year the Company received service fees from loans held by Knightrider Lending Designated Activity Company of £0.2 million (2020: £0.3 million) and from Throgmorton Lending Designated Activity Company of £0.7 million (2020: £0.5 million). These entities are subsidiaries of funds which are held as associates of other Group entities.

Compensation of key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel comprises the Directors of the Company:

	2021	**2020**
	£m	£m
Salaries and short-term benefits	2.4	1.8
Equity based compensation	1.3	1.1
	3.7	2.9

The Directors are also the key management personnel of the Company. The aggregated emoluments for the highest paid Director inclusive of employers national insurance contributions was £0.8 million (2020: £0.7 million). The highest paid Director did not exercise any share options during the financial year (2020: nil).

The Directors who hold common Directorship with the Parent Company are paid from the Parent. Further details on Directors' remuneration is shown in the Report of Directors' Remuneration in the Governance section of the parent company's Annual Report and Accounts.

Interests in other entities:

Small Business Origination Loan Trust 2019-3 DAC ("SBOLT 2019-3"), is an unconsolidated structured securitisation entity set up in the previous financial year which holds the portfolio of SME loans and issues bonds after securitisation has occurred.

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

24 Related party transactions (continued)

The Company provided subordinated loan funding to Great Trinity Lending 1 DAC ("GTL") being the Warehouse SPV in order to originate SME Loans for the purpose of being securitised. Throughout the financial year, the Company provided £nil (2020: £20.4 million) of capital and received capital repayments of £52.2 million (2020: £4.3 million). The total outstanding principal balance on the subordinated loan was £nil at 31 December 2021 (2020: £52.2 million). The loan is held at fair value through profit and loss and fair value gains of £26.6 million (2020: losses of £23.8 million) were recognised in the statement of comprehensive income during the year. The fair value of the subordinated loan, inclusive of the value of future excess spread to be repaid to the Company beyond the principal repayments made to date derived from the remaining loans in the warehouse, was £2.8 million (2020: £28.4 million).

The Company earned interest on the loan of £1.1 million (2020: £4.2 million) in the financial year.

£127.5 million of SME loans from the warehousing phase were originated in GTL and subsequently securitised at carrying value during 2019. The Company held a residual interest of 51% (2020: 51%) of the unrated bonds issued by SBOLT 2019-3 on the balance sheet under investment in bonds prior to the sale highlighted below.

The Company recognised interest income of £0.1 million (2020: £1.9 million) in relation to the bonds held during the year and fair value gains of £2.6 million (2020: losses of £9.1 million) during the year.

During the prior year the Company sold 95% of its holding in a tranche of the unrated bonds for £4.0 million reducing it's holding to 2.55% in that tranche.

The Company recognised servicing fees from servicing the SME loans held by the securitisation SPV in the year of £1.0 million (2020: £1.9 million) and from the warehouse of £0.9 million (2020: £2.1 million). The Company's maximum exposure to loss from bonds issued by the entities is equal to the carrying value of the investment in bonds on the balance sheet of £4.2 million (2020: £3.3 million). The Company incurred direct costs associated with the securitisation programme in 2019 which have been deferred to the balance sheet within prepayments, and have amortised in the year by £0.2 million (2020: £0.4 million) to a balance of £0.2 million (2020: £0.4 million).

25 Controlling party

The Directors regard the Parent (FCH) as the immediate and ultimate parent company of the Company. The Company does not have a single ultimate controlling party. FCH prepares consolidated financial statements for the Group which can be obtained from Companies House and FCH's corporate website: https://corporate.fundingcircle.com/investors/results-reports-presentations. FCH is the only entity to consolidate the Company within its financial statements. The registered address of FCH is Funding Circle Holdings plc, 71 Queen Victoria Street, London, EC4V 4AY.

26 Contingent liabilities

As part of the ongoing business, the Company has operational requirements with its investors. At any point in time, it is possible that a particular investor may expect the Company 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.

27 Post balance sheet events

Subsequent to the balance sheet date, in February 2022, the loans of GTL were sold to another Group entity Funding Circle Trustee Limited ("FCTL") at fair value, in order to reduce the associated costs of holding the loans in a warehouse. FCL provided funding to FCTL under the revolving credit facility in order to fund the purchase of the loans and the proceeds from the net proceeds from the sale of the loans were distributed to FCL as a distribution of interest. The value of the subordinate loan from GTL was reduced to £nil and the GTL entity began the process of being dissolved.