Funding Circle Holdings plc

Annual Report and Accounts 2023

Backing businesses to succeed






The finance provider that's all in

Small businesses are the engine room of the global economy. We're the small business finance provider that backs them to succeed.

Our mission

Business owners are forward thinkers. They're determined. They stand up to make a difference and work hard to make it happen. That's why our mission is to help them get the funding they need to win.

Vikentijs Gubskis
8 Rocks Deli & Wine

8 Rocks café and wine bar wanted to reinvent their business after lockdown. Find out how FlexiPay gave them the support they needed to grow.

Watch the video online

Joe Faulkner and Inas Sid
15 Grams

Hear how this coffee shop and roastery used their loan to expand and open a second site and grow their online customer base.

Watch the video online

Bruna Piaui Graf
Bruna's Brazilian Cheese Bread

In 2019, Bruna made the decision to follow her dreams of offering the real Brazilian cheese bread experience.

Watch the video online

Laurence Dixon
Bass Place

London's busiest double bass workshop needed funding for some roof repairs – and their high street bank couldn't help. Here's how we were able to support them.

Watch the video online

Highlights

Borrow, pay and spend

- £16.9 billion credit extended globally to more than 150,000 SMEs since 2010
- Launched FlexiPay card in the UK
- Awarded a licence to participate in the US Small Business Administration's 7(a) small business loan programme, subject to SBA approval

Solid performance in line with expectations

- Total income of £162m; AEBITDA loss of £3.9m
- Loan returns remain robust and attractive
- Continued to execute on multi-product strategy
- Go forward focus on profitable UK business

Powered by data and technology

- 80% of applications in the UK receiving instant decisions
- Application in six minutes, decision in as little as nine seconds and money in borrower's account in 24 hours (UK)
- Strong customer satisfaction with Group NPS at 79 for 2023

Executing on medium-term plan

- Attract more businesses — including the second year of sponsorship with Premiership Rugby
- Say yes to more businesses — including lending via Marketplace
- Become #1 in new products — including the launch of FlexiPay card which enhances the FlexiPay proposition

Our performance

Operational

Loan originations

£1.5bn

2022: £1.4bn

FlexiPay transactions

£234m

2022: £59m

Loans under management

Loans under management

£3.3bn

2022: £3.7bn

FlexiPay balances

£56m

2022: £18m

Statutory financial

Total income

£162.2m

2022: £151.0m

(Loss)/profit before tax

£(33.2)m

2022: £(12.9)m

Net Assets 2023

£246.8m

2022: £284.0

Alternative performance measures ("APM")

AEBITDA

£(3.9)m

2022: £9.5m

The Strategic Report was approved by the Board on 14 March 2024.

Lisa Jacobs
Chief Executive Officer

Contents

Funding Circle at a glance

We back businesses to help them grow

At Funding Circle we understand how important getting the right finance is for businesses to take their next step. That's why our mantra is to say "yes" to as many businesses as possible.

What we do

Funding Circle is the finance provider that backs businesses to succeed, proudly raising the bar in the world of SME finance with innovative products and services that support real businesses to go from strength to strength.

A suite of finance products to support small businesses

Borrow

Working capital to help businesses grow, launch new products or improve their operations.

Pay

Flexible cash flow finance to pay bills and supplier invoices and make larger purchases.

Spend

Cover everyday business expenses, whether at work or on the go.

Business loans

Flexible commercial and government-backed loans from £10,000 to £500,000, available from six months to seven years.

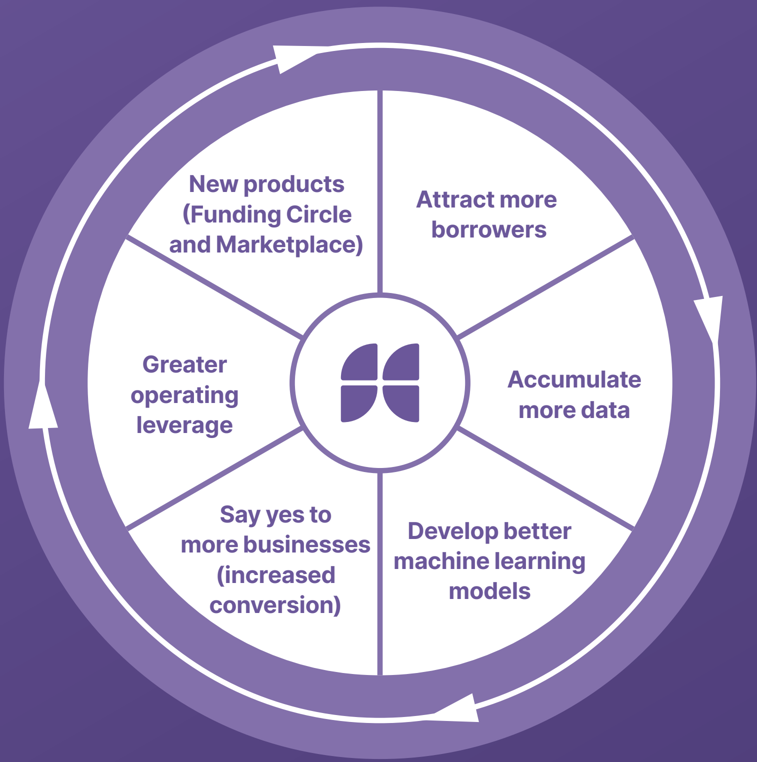
FlexiPay

Short-term financing via our FlexiPay line of credit product, with a credit limit of up to £250,000.

Marketplace

Merchant cash advance, business loans and revolving credit facilities from our Marketplace lenders.

More detail on page 16



How we do it

Our diverse product range is designed specifically for SMEs as a priority, using leading technology and data to provide fast, fair and hassle-free finance.

Beyond great products, we know how vital thoughtful customer service is. We provide meaningful, human support throughout to ensure every customer is seen and heard.

Our ambition is to support as many businesses as possible with the finance they need to succeed, and to be a long-term partner on their journey.

Where we do it

We're delivering on our mission of helping small businesses get the funding they need to win and have helped tens of thousands of businesses across the UK and US.

United Kingdom

- Founded in the UK in 2010, Funding Circle is now the leading lending platform for SMEs
- We've helped more than 95,000 businesses access over £12.5billion in finance

United States

- Funding Circle entered the US market in 2013
- Since then, we've helped more than 45,000 businesses access over $4.8 billion in finance

An unrivalled experience

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

2.5bn
data points in our data lake

6 min
application time in the UK

80%
instant decisions in the UK

79
customer NPS for the Group

4.6
Trustpilot score in the UK

More detail on page 12

Our unique proposition

We have built a unique proposition since the business was founded in 2010 which has placed us in a strong position to deliver on our strategic ambitions and serve more small business needs.

Leading SME lending platform in a large and underserved market

- >£330 billion term loans addressable market opportunity, including £84bn in the UK
- FlexiPay adds new market potential with >£1.3 trillion SME B2B payments market opportunity in the UK

More detail on page 10

Technology and data drive superior customer experience and competitive advantage

- Group Net Promoter Score ("NPS") of 79 and Trustpilot score of 4.6 stars
- 3x better risk discrimination than traditional bureau scores, delivering high conversion and attractive investor returns

More detail on page 14

Strong financial profile and proven business model despite tough environment

- Strong balance sheet and cash position
- Established and profitable UK Loans business

More detail on page 12

Attractive growth opportunities

- Focused on expanded distribution, increased conversion and an expanded product set
- Significant medium-term opportunities in new products

More detail on page 18

Strong progress on our medium-term plan across the business

UK Loans

Business profitable

£6.5m

PBT as most established business

Maturity and scale evident

US Loans

Business continued to grow

21%

originations growth in FY 2023 vs FY 2022

FlexiPay

Strong momentum

£234m

~4x growth in transactions in FY 2023 vs FY 2022

FlexiPay card now fully launched to new and existing customers following successful beta phase

Our strategic roadmap is our platform for growth

Our medium-term plan is focused on delivering on our strategic pillars supported by our core foundations, ESG strategy and the values that our Circlers live and breathe every day.

Three strategic pillars

More detail on page 19

Attract more businesses

Strengthening existing distribution channels and expanding into new embedded and intermediated channels to enable more businesses to reach us.

Say yes to more businesses

Serving more businesses through an expanded set of personalised Funding Circle products and further integration with third party lenders.

Become #1 in new products

Using our capabilities to enter new markets where we can develop market-leading products.

Three core foundations

More detail on page 19

Technology and data to enable innovation at pace
Investing in our technology and ever-expanding data lake to deliver superior customer service and better meet the needs of SMEs.

Scalable products and processes
Serving more businesses through an expanded set of personalised Funding Circle products and further integration with third party lenders.

High performing teams executing brilliantly
Investing in our people and our culture to make our business stronger and deliver on our strategy.

Our values

More detail on page 25

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

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

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

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

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

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

Our ESG strategy

More detail on page 22

Diversity, equity and inclusion ("DEI")
To be best in class and live by our DEI statement, building an inclusive and diverse culture.

Social impact
To support a diverse SME customer base: creating jobs, fostering financial inclusion, having a positive impact and providing opportunities, whilst having a multiplicative effect on the wider community.

Climate change and environment
To support key environmental initiatives where we can have meaningful impact for Funding Circle and its customers, and achieve a good standard of positive environmental impact and progress towards net zero.

Governance and risk management
To meet shareholder and investor expectations, and be viewed positively in the market.

A track record of delivering robust and attractive returns

Andrew Learoyd
Chair

Delivering against medium-term plan

In 2022 we set out our medium-term plan to become a multi-product platform that enables SMEs to borrow, pay and spend with Funding Circle. I am encouraged that we continued to make good progress against this strategy last year, which will enable us to reach more SMEs and add additional paths to grow our business.

Solid performance in a challenging year

A year ago, I ended my annual statement by referencing the challenging period of subdued economic activity ahead. This played out against the backdrop of growing geopolitical uncertainty and inflationary pressures, which combined to take their toll on economic growth. Despite these challenges, we once again demonstrated the resilience of the business and our agility in responding to the changing economic environment.

Low business confidence and the higher interest rate environment are not the conditions in which small business owners rush to take on new borrowing, so it is encouraging that we grew our loan originations by 2% year on year and FlexiPay transactions quadrupled in the same period. We also further enhanced our position as a market leader in supporting government-backed lending to SMEs via the third iteration of the UK government Recovery Loan Scheme. And our new short-term credit product, FlexiPay, is growing rapidly, with the launch of the new card feature off to a promising start.

As a result, in spite of a tough economic backdrop, our core UK Loans business extended its track record of profitability. The business continues to go from strength to strength, growing its leading market share and it has now delivered 12 successive years of positive net returns for lenders on our platform. This position is testament to the power of our technology, how we utilise our unique data insights and the Funding Circle brand.

Strategic Focus

The medium-term plan, with its focus on serving our customers across a broader range of products and services, is very different from the single product, multi-geography strategy first adopted by Funding Circle. The shift in strategy has been logical and evolutionary: as we have grown our customer base to 150,000 SME businesses and continue to enjoy exceptionally high levels of customer satisfaction and loyalty, it makes sense to increase our engagement with those customers and to offer them more products. We are pleased with the progress made so far, and continue to believe this is the right strategy for the business.

> "Thanks to all of our Circlers who have once again helped to deliver another solid set of results in a difficult external environment. This has been a true team effort, with contributions from every corner of the business."

Our team in the US has played a significant part in helping us to execute against our three strategic pillars. Most recently, the team was awarded an SBA loan issuer licence from the US Government, which is subject to final SBA approval.

SBA issuance, however, requires a different approach in terms of its capital needs and other resource requirements. This would leave the US business with a materially different profile to our UK operations. As a Group, we have taken the decision to simplify the business and focus on a profitable UK business and delivering shareholder value. We have received early indications of interest in the US business and will provide an update in due course.

Thanks to the team

Thanks to all of our Circlers who have once again helped to deliver another solid set of results in a difficult external environment. This has been a true team effort, with contributions from every corner of the business.

As we look forward to 2024, there will be some upcoming changes in Board composition as some of the Directors are nearing the end of their tenure and to ensure we have the right Board composition in place for our revised strategy. It is my responsibility to ensure a smooth and effective transition, including for my own role as Chair. Eric Daniels, who has served on the Board for nearly eight years, will not be standing for re-election as a Director at the Company's AGM in May 2024. On behalf of myself and the rest of the Board, we'd like to thank Eric for his dedication and commitment over the years. The business has benefitted from his expertise and experience and we will miss his gravitas as well as his humour.

An exciting year ahead

Our core business, already profitable, has incredible operating leverage to take advantage of any recovery in the UK economy.

The decision to review our activities in the US has been tough, after many years of ownership and investment, but I believe it is a decision that is in the best interests of delivering shareholder value and simplifying the business. We believe that our business is fundamentally undervalued by the public markets and by making changes in the US we can maximise the focus of management, our resources and our investors in the valuable core UK business and the exciting opportunities of delivering new products to our growing customer base.

Andrew Learoyd
Chair
14 March 2024

Backing businesses

Sip, sip, hooray, with FlexiPay

Vikentijs (Vik) Gubskis
8 Rocks Deli & Wine

8 Rocks Deli & Wine, a café and wine bar in Loughton, Essex, took out a government-backed loan during lockdown to update their premises and make it more functional as an all-day dining location, providing the community with a deli by day and a wine bar by the evening. However, Vik still found managing cash flow a challenge when having to order so much stock – so in April 2022, he took out a FlexiPay line of credit to help.

Vik was one of the early tranche of customers to be approved for a line of credit and, so far, he has used the product to get a discount on their bulk wine orders and to spread their everyday costs. Vik tells us the benefits of having FlexiPay on hand, and how our support has allowed his business to grow.

Watch the video online

Delivering on our plan to capture growth in a large, underserved market

Lisa Jacobs
Chief Executive Officer

Two years ago, we set out our medium term strategy to transition into a multi-product business, enabling our customers to borrow, pay and spend. I'm proud of the progress we have made in achieving this strategy, whilst also delivering results in line with expectations.

Our UK business is in a strong position. We're the market leader in online SME lending; we're using our technology and data advantage to deliver a superior customer experience and we're launching new products to further our mission of helping more SMEs get the funding they need to win. Our loan returns remain attractive and robust, attracting continued institutional investor loan demand. Our UK Loans business is profitable despite a stressed credit environment and our FlexiPay product has grown strongly and, as a frequent use product, has enabled us to build greater engagement with our customers. I'm excited that we launched our card product in 2023 – enabling customers to borrow, pay and spend with Funding Circle in their pockets for the first time.

We made steady progress in the US and were the only fintech to receive a tentative award for an SBA 7(a) licence. We see good long term growth opportunities in the US market. However, future growth will require significant cash and capital under the SBA programme. As a result, going forward we are focusing on our UK business – the combination of UK Loans and FlexiPay – to drive Group cash and profitability and to deliver greater shareholder value. We have received early indications of interest in the US business from third parties and will provide a further update on these discussions in due course.

Financial and operational overview

Our financial performance in 2023 was in line with expectations, and once again demonstrated the resilience of the business and our agility in responding to the changing economic environment. We delivered £162.2m total income and AEBITDA loss of £3.9m, as we invested in the US and FlexiPay. We ended the year with a strong balance sheet – net assets of £246.8m and unrestricted cash of £169.6m.

During the year, we saw good momentum in our two UK businesses – UK Loans and FlexiPay. The UK Loans business is profitable and margins improved half-on-half, with AEBITDA profit of £21.3m and PBT of £6.5m, up from £13.8m and a loss of £1.8m in 2022, respectively.

FlexiPay, our short term credit product, delivered strong growth in 2023, building on a successful launch in 2022. Transactions nearly quadrupled to £234m and businesses FlexiPayed over 60,000 times. What I'm particularly excited about is the repeat usage we see – FlexiPay has quickly become an important tool for our customers to manage their biggest pain point, cashflow management – enabling us to see attractive recurring revenue.

"We have a strong team, a clear plan and we're unwavering in our mission to help more small businesses win.

We will continue to deliver well and maintain our core focus on transforming our business into something that is more important in our customers' lives and more valuable for our shareholders."

Our achievements this year are testament to the hard work and dedication of our fantastic Circlers – thanks to all of them for their commitment to helping SMEs thrive. Our culture is something we deliberately nurture and makes our business special. It's a pleasure to work with such a great, diverse team every day.

Playing an important role in businesses' day-to-day lives

This year I was delighted to meet a number of our customers including Alexis Gauthier, a repeat Funding Circle borrower and founder of Gauthier Soho in London, and Bruna Piaui Graf of Bruna's Brazilian Cheese Bread in Colorado. I continue to be inspired by our borrowers' entrepreneurship, creativity and resilience. We play a small part in these businesses' lives, but it is an important one – one that enabled both Alexis and Bruna to expand their business and realise their goals. I know everyone at Funding Circle is so proud that our credit products can help make a difference for these businesses – whether that's through working capital, a loan to fuel growth, or providing a better means to manage their cashflow with FlexiPay.

Looking ahead

We exist to help SMEs access the funding they need to win. We do this by delivering an unrivalled customer experience powered by data and technology. We are leveraging this competitive advantage to diversify and expand our products and distribution channels to help the hundreds of thousands of SMEs who remain underserved by the traditional financial services market.

We're excited about the future of our UK business. Our focus on the UK will improve Group profitability and cash generation over the nearer term. We will continue to support our businesses through wider distribution, increased conversion and an expanded product set, which is underpinned by a robust balance sheet and strong cash position.

We have a strong team, a clear plan and we're unwavering in our mission to help more small businesses win. We will continue to deliver well and maintain our core focus on transforming our business into something that is more important in our customers' lives and more valuable for our shareholders.

Lisa Jacobs
Chief Executive Officer
14 March 2024

Backing businesses

Success is brewing

Joe Faulkner and Inas Sid
15 Grams

In 2019, Joe and Inas opened their first 15 Grams coffee shop and roastery in Greenwich, London. Having seen immediate success, with many people walking out for a coffee during lockdown, the owners wanted to open a second site so they could reach a wider customer base.

Through one of Funding Circle's partners, Tide, they were able to get the funds they needed really quickly, allowing them to secure their second shop in Blackheath, London, fund new equipment and hire additional staff, as well as grow their e-commerce subscription business. Hear their story, and how funding has helped them expand their business to new heights in the video below.

Watch the video online

Small businesses' confidence returning after years of uncertainty

SME confidence has increased across a range of metrics over the last year, but support is needed to unlock the full potential of the UK's small businesses who are optimistic for growth once trading conditions ease and as and when demand for goods and services recovers. Resilience is on the rise and businesses feel hopeful for the future, as SMEs report an increase in sentiment towards long term success.

SMEs: An important driver of the economy

It's clear that SMEs punch above their weight when it comes to powering the economy. Making up 99% of UK businesses and 61% of private sector jobs, SMEs keep our communities vibrant and our high streets lively. Based on the results of our 2023 SME survey, Funding Circle's lending not only contributed £6.9 billion to the UK's gross domestic product (GDP) but also played a pivotal role in supporting 95,800 jobs. Beyond employment and GDP contributions, the economic activity supported by these loans generated £1.6 billion in tax receipts.

Details of the impact report can be found here:

UK market:

There are a range of challenges impacting SMEs, including the highest base rate in 15 years, supply chain issues and a slowing demand for goods and services. Over the last few years, we have seen how SMEs have responded to these challenges with specific behaviours that emerged during the pandemic. These can be broadly categorised into three groups:

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

In the past year, the number of survivors remained steady, and the size of hedgers and thrivers fluctuated as businesses responded to the changing economic conditions. As individuals and households felt the impacts of the cost of living crisis and businesses responded to base rate rises, business confidence, and therefore the amount of thrivers, dropped in the middle of the year. However, this group stabilised as the conditions eased throughout the second half of the year.

SMEs are growing in optimism for the long term, with ONS reporting a 11% rise in SMEs reporting no concerns for the future of their business over the last year.

However, they're still exercising caution in the short term, with more hedgers holding off investment decisions as they seek to maintain cash reserves in the face of uncertainty. This is demonstrated by almost half of the SMEs surveyed reporting they had paused, delayed, or cancelled a business investment in 2023 due to economic conditions. The proportion of SMEs expecting to immediately increase investment in their business also fell. The research shows SMEs prefer to wait for signs of demand recovery before making investments.

Nonetheless, SMEs are clearly ready to unlock their potential. We are pleased to see nearly half plan to grow their business over the next year. Data from the Federation of Small Businesses (FSB) supports this, finding that the share of SMEs expecting to increase investment over the next quarter towards the end of 2023 was in line with the 2022 level, indicating the cohort of thrivers has remained stable.

SME confidence is finally on the rise

Overall, SMEs are powering our economies and communities, and with the right support they are well-placed to continue doing so. The FSB's Small Business Index (SBI) indicates an overall increase in business confidence levels during 2023. Although economic weaknesses seem to influence SME sentiment, more SMEs are reporting no risk of insolvency compared to equivalent levels last year. Funding Circle survey data also indicates that 87% of small businesses feel more optimistic or have neutral sentiments for their business performance for the next 12 months, suggesting a positive outlook for the UK economy. Not only this, they are ready to invest when the opportunity arises, with medium term growth ambitions rising.

SMEs access to finance is growing

Despite this, confidence can only get you so far. Traditional credit conditions have tightened due to monetary policy decisions and economic headwinds, but this hasn't stopped SMEs accessing finance.

£6.9bn
contribution to GDP

95,800
jobs supported

£1.6bn
generated in tax receipts

Our research shows the availability of credit to SMEs in the UK has risen, with a 15% increase from Q4 2022 to Q4 2023. Much of this availability is a direct result of alternative finance lenders like Funding Circle providing finance that traditional lenders do not. Over two-thirds (67%) of SMEs report that they believe traditional lenders such as banks favour large, well-established businesses. And brokers agree: a recent survey of UK finance brokers indicated that 3 out of 4 (77%) of banks are now less willing to lend to SMEs.

SMEs need simpler ways to access funding

Part of this problem lies in the complexity of data required to make a lending decision which can be highly onerous for the borrower. According to our 2023 borrower survey, SMEs' primary hurdle in accessing funding was the borrowing process. This is also highlighted in data from Open Banking Expo (OBE) that shows that 47% of small businesses struggle to answer all the questions in loan application forms. This is a big hurdle for SMEs, and our survey shows that simplicity and speed are two of the main reasons SMEs choose us.

The sector has also seen greater demand for, and provision of, short-term financing including credit cards and overdrafts, with the Bank of England reporting business credit card demand doubling from 10% to 20% in the last year. We launched FlexiPay, our short-term finance solution, to help meet this growing customer need. With over £1.5bn of funding distributed to SMEs in 2023, we continue to evolve our range of products for our customers to ensure they can access the finance they need.

Backing businesses

Struck the right chord

Laurence Dixon
Bass Place

Bass Place, the home of double bass repairs in London, was struggling to find funding for some restoration works on their building, and their high street bank of 30 years couldn't help. Having heard about Funding Circle through a relative, owner Laurence decided to make a call to our team – and had all the funds for the repairs four days later.

Laurence tells us all about his experience, what else he used his loan for, and how finance has helped him continue to restore some of the world's oldest instruments.

Watch the video online

Our model creates growth for all stakeholders

We have 13+ years' experience of delivering robust and attractive returns to investors through a proven business model whilst providing a superior customer experience.

Market inputs

Small business borrower needs

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

Fast, convenient applications
- Instant automated decision in the UK for 80% of applications (six minute application; decision in nine seconds; funding in 24 hours)
- Easy online applications in the US (six minute application; decision in 24 hours; funding in 48 hours)

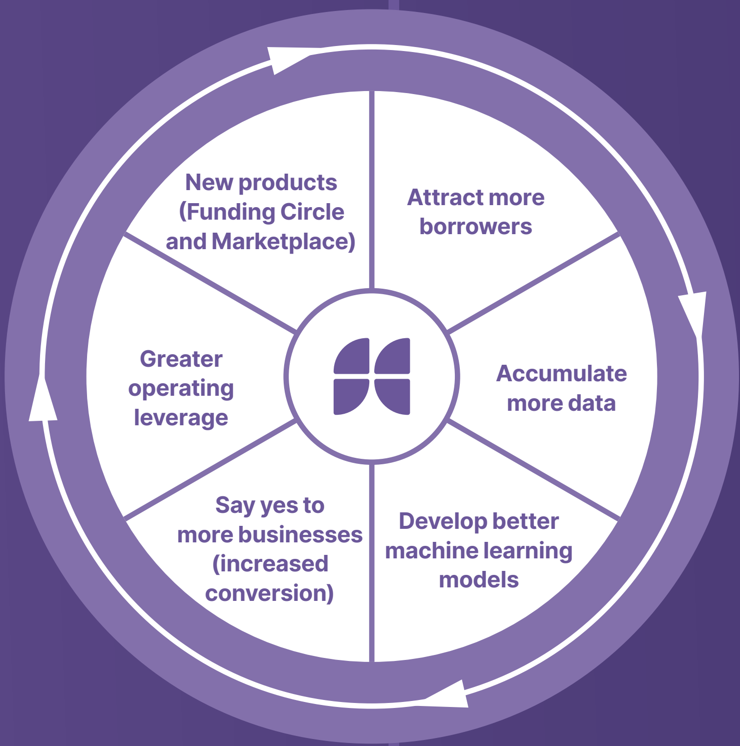
Superior customer experience
- 79 Group Net Promoter Score

Institutional investor needs

Access to hard-to-reach asset class at scale through diversified loan book of multiple smaller loans
- Diverse SME population
- Wide-ranging and complex risks
- Significant credit exposure
- Fragmented and unpredictable data

Robust and attractive returns
- 6-7% average annualised returns since 2018
- Higher future returns targeted (higher base rate environment)
- Active monitoring to ensure institutional investor diversification and performance

Our flywheel



Our competitive advantage

Growing data lake

Contains 2.5 billion data points, including proprietary data gained from over 13 years of SME lending which includes over 1.7 million loan applications and behavioural and performance data from over 200,000 loans and 80,000 FlexiPay transactions.

Models that outperform

Our data enables us to build and apply ever more accurate and predictive risk models (now ninth generation in the UK and fifth in the US) that outperform traditional bureau scores by as much as three times. These models outperform the traditional bureau scores, but also enable us to be smart about the data we ask our customers for, balancing risk insights with a frictionless customer journey.

Instant decisions and increased conversion

The powerful combination of data and technology enables us to make more instant lending decisions, optimising borrower access to finance and improving customer experience and conversion. Our data also powers our marketing models, so we target those businesses most likely to respond and to pass our credit assessment.

Developing new products

Our data, our technology and our customers combined enable us to launch more products. Offering more products increases our customer engagement and builds deeper relationships with customers, who return to us for future finance and recommend us to others.

Value we create

Borrowers

Access to fast, flexible, affordable finance with an unrivalled customer experience.

Institutional investors

Exposure to an attractive, hard-to-access asset class of strategic importance to the economy.

Communities

A big impact in communities where small businesses create jobs, fuel economic growth and generate tax receipts.

Government and regulators

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

Partners and suppliers

A dependable partner and customer, working towards a common goal wherever possible.

Employees (Circlers)

A culture of diversity, equity, inclusion and opportunity, dedicated to learning and personal growth in a high performance environment.

Shareholders

An attractive opportunity for sustainable shareholder value creation.

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

Over the past 13+ years, our dedication to providing SMEs with access to finance has equipped us with rich, unparalleled data which is at the heart of our business and underpins everything we do.

It is what we do with this constantly evolving and expanding data, and how we combine it with our powerful, advanced technology, that makes us unique and allows us to solve more small business problems through our range of financial products.

Since 2010, we have provided finance to 150,000 SMEs, assessed 1.7 million credit applications and have behavioural and performance data from over 200,000 loans and more than 80,000 transactions through our most recent product, FlexiPay. We combine our proprietary data with publicly available sources to gain an even broader knowledge of SMEs and, from over 13 years of gathering this data, our data lake now includes 2.5 billion data points. This has enabled us to build an unparalleled picture of SMEs: their spending habits, borrowing habits and payment behaviour and use cases across different products.

We use the data we have at our fingertips in ways that our competitors, including banks, don't - this is what differentiates us from our peers.

Optimise marketing

Our unmatched understanding of SMEs and latest generation risk models - now ninth generation in the UK and fifth in the US - help us to select the right applicants for our products. We use accurate targeting to attract and say yes to businesses likely to want finance and likely to be creditworthy.

Provide access to finance, fast and hassle free

Developed and refined over more than a decade of lending to SMEs, our advanced machine learning technology and instant decision capabilities enable SMEs in the UK to complete a lending application in six minutes and receive a lending decision in as little as nine seconds.

Deliver strong and robust returns

Through our careful customer targeting, we're able to optimise and increase conversion, enabling us to ensure a good return on investment.

Expand our products

By leveraging our unique data insights and unrivalled technology, we are in a strong position to deliver new products quickly and further integrate with third party lenders to serve more business needs with a better value proposition.

Generate repeat usage

Our excellent customer experience and user journey ensure we not only attract new borrowers, we generate repeat businesses from our existing customers too.

And this is just the beginning. The SME market is large and typically underserved. Our unrivalled data insights and technological advantage continue to grow stronger as we scale, and, as we have shown with FlexiPay, we are in a strong position to continue to unlock this market and solve more small business problems across other product categories.

150,000
businesses helped since 2010, globally

>200,000
loans to date, globally

2.5bn
data points in Funding Circle data lake

1.7m
applications to date, globally

£16.9bn
lent to SMEs to date, globally

37m
businesses in Funding Circle data lake

Backing businesses

Rising high, expanding wide

Bruna Piaui Graf
Bruna's Brazilian Cheese Bread

Since moving from Brazil to the US in 2014, Bruna longed for the traditional Brazilian snack, cheese bread. In 2019 Bruna made the decision to follow her dreams of offering the real Brazilian cheese bread experience, and launched the company Bruna's Brazilian Cheese Bread.

Initially launching with a food truck, Bruna offered delicious cheese bread at festivals and markets. A year after launch, the pandemic impacted the business, but Bruna didn't give up and pivoted by starting a frozen and bake at home selection, as well as changing the packaging and venturing to wholesale.

Whilst growing the business and taking it into different directions, Bruna came to Funding Circle for a business loan that helped her with the growth of the business. For Bruna, it was a really simple and quick process that has allowed her to focus on creating new and delicious cheese breads, including vegan and pizza flavoured options.

Watch the video online

Financial support that backs businesses to succeed

We have a diverse and evolving product range that empowers businesses to reach their goals.

A suite of finance products to support small businesses

Borrow

Working capital to help businesses grow, launch new products or improve their operations.

Pay

Flexible cash flow finance to pay bills and supplier invoices and make larger purchases.

Spend

Cover everyday business expenses, whether at work or on the go.

UK business loans | **US business loans**

Refreshingly simple and competitive loans designed for businesses

UK business loans:
- Prime and near prime loans
- From £10,000 to £500,000
- Available from six months to six years

US business loans:
- Super prime, prime and near prime loans
- From $25,000 to $500,000
- Available from six months to seven years

FlexiPay

A flexible credit line and business credit card that allow businesses to spread their repayments in three

- Interest-free line of credit with no annual fees
- Credit limit up to £250,000
- Includes business credit card
- Flat fee per transaction

Marketplace

A service that opens the door to finance solutions from across the market

- Asset finance
- Term loans
- Revolving credit facilities
- Merchant cash advance

FlexiPay: payments on your terms

We've heard countless businesses tell us they want more support and options in how they manage their finances and more flexible and simple payment terms - that's why we created FlexiPay.

With FlexiPay, businesses choose how to access their funds - they can either make a simple transfer to pay a supplier or bill, or use the FlexiPay card for purchases online or in store, then choose which payments to pay off in full, or spread the cost over three manageable instalments with a flat fee and 0% interest. FlexiPay enables businesses to pay urgent bills quickly, keep suppliers happy with early payments and seize new business opportunities in the moment.

Pay bills or expenses by card or transfer directly

Apply in minutes on our website and get an instant credit limit decision

Use the FlexiPay app to pay a business cost

...or use your FlexiPay card to pay in store or online

Repay over three months for a flat fee

The credit is then available to use again

2023 was a big year for FlexiPay as we fully launched FlexiPay card. Now, FlexiPay customers can use their card to spend online and in store from anywhere. So far, we've issued over 6,600 FlexiPay cards and are already seeing how it has strengthened and enhanced the FlexiPay proposition with customers using the business credit card more frequently and for smaller transactions than their line of credit. We also launched the FlexiPay mobile app in August, allowing businesses to manage their payments in one place, or make a business payment through the app.

The FlexiPay journey is very exciting and we are continuing to see great momentum and growth:

- We grew our FlexiPay customer base to over 6,500 active accounts
- FlexiPay transactions grew ~4x in 2023, to over £290 million since launch
- Active customers are typically using FlexiPay 1.3 times per month
- Businesses have now 'FlexiPayed' more than 80,000 times

We have so many more exciting product features and updates to come in 2024 which will give businesses even more flexibility, enhance the customer journey and further simplify the product - watch this space!

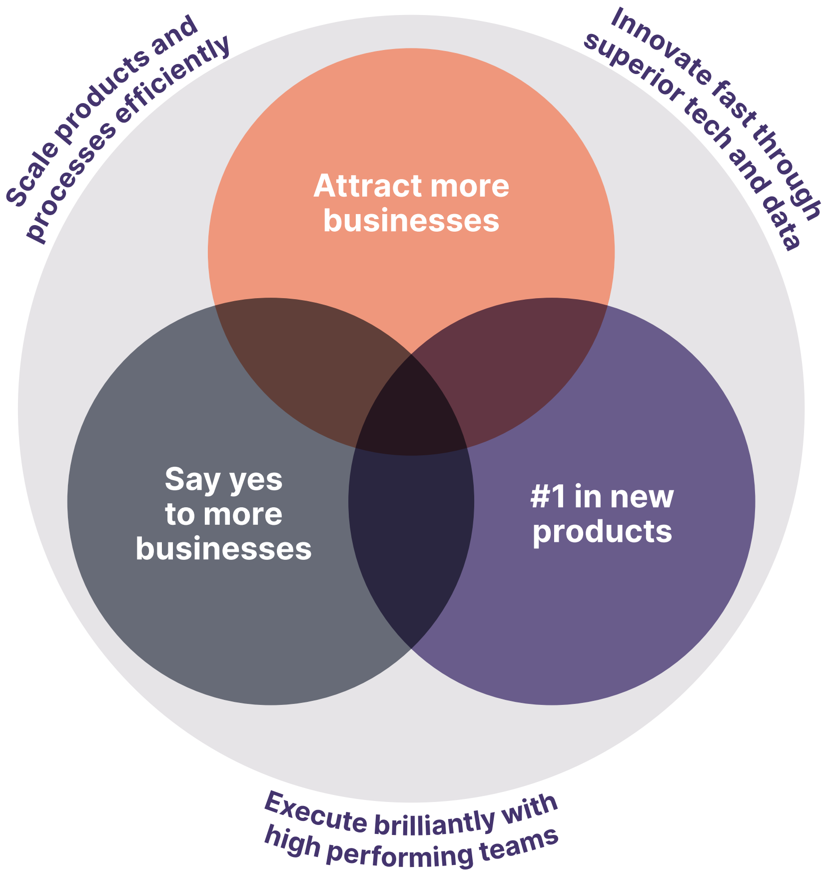
Marketplace: opening doors to finance solutions from across the market

Our Marketplace service enables us to say yes to more businesses by finding the right deal for customers we are unable to support with our existing product range. Through Marketplace, businesses can access a wide range of finance products from our partners whilst benefitting from the speed and efficiency provided by Funding Circle's market-leading technology.

In 2023, Marketplace continued to show strong momentum in helping more businesses access the finance they need. During the year, more than £100 million was lent through Marketplace to UK businesses. We expanded our product set and deepened integrations with some of our Marketplace partners to provide a more seamless flow, including the launch of a new asset finance proposition in Q4 which enables customers to directly apply for asset finance on the Funding Circle website. This new proposition provides a significant opportunity for us to support more businesses which are widely underserved, with a total addressable market of £34bn for asset finance in the UK.

A growth strategy to help more small businesses win

Two years ago, we set out an ambitious medium-term growth strategy to expand the number of ways we help small businesses win. We are transitioning our business from a single product, direct-focused business to a multi-product business serving a direct and embedded audience.



Starting from a strong position

Over the last 13 years, we've built out our core strengths and capabilities. Our investment in data and technology has built a superior customer experience, which our customers really value.

We are now building on these foundations as we solve more problems for our borrowers – with an expanded product set, increased engagement and more distribution channels. Consequently, as we execute against our medium-term plan, increased engagement will increase our customer lifetime value.

We are driven by our purpose to help SMEs win, because we believe they make a big difference to people, communities and the economy. Yet when it comes to accessing finance, a key growth enabler, they are underserved. Our medium-term plan is focused on delivering on these growth opportunities through a defined set of three strategic pillars and three core foundations.

Find out more online

Three strategic pillars

1.

Attract more businesses

We are attracting more businesses through an expanded product set, focused brand investment and continued strengthening of existing channels.

How we're delivering:

- Each of our product expansions increases our relevance to our customers and enables us to go deeper in marketing channels. FlexiPay, in particular, meets a more frequent customer use case, attracting more customers with SMEs now able to borrow, pay and spend with Funding Circle for the first time.
- We have completed the first year of our sports sponsorship with Premiership Rugby in the UK and secured Jamie George as our first brand ambassador, driving improved brand metrics and helping us reach more potential borrowers.
- We continued to expand our distribution channels with new partnerships in the UK and US.
- We were recently awarded Lender of the Year at the AltFi Awards in the UK and Fintech of the Year at the Fintech Awards in the US.

2.

Say yes to more businesses

We want to say yes to as many businesses as possible by expanding our end to end conversion.

How we're delivering:

- In August 2023, we began our participation in the government's third iteration of the Recovery Loan Scheme in the UK. We are offering these loans alongside our commercial loans and it enables us to serve an incremental number of businesses, with strong demand experienced to date.
- We have strengthened our Marketplace, referring businesses that we cannot support to other lenders – and enabling us to leverage and monetise our advantage in distribution and marketing. We work with 35 lenders and our Marketplace now accounts for 15% of our originations.
- Last year, we leveraged our data to identify further opportunities to help more businesses access funding – and expanded our product set to offer super prime loans in the US and near prime loans in the UK. In the US in 2023, super prime was over 40% of originations by value, helping fuel our growth. In the UK, near prime was 7% of volumes of origination. These loans are typically to newer or smaller businesses and we expect to see migration from near prime into our prime product over time.

3.

#1 in new products

We want to use our capabilities to create new market-leading products.

How we're delivering:

- In 2022 we launched FlexiPay, a line of credit product that solves SMEs' biggest pain point – cash flow management. The product enables us to meet more customer needs, build a deeper and more engaging relationship with our customers, and access a sizeable new market.
- We continue to see strong customer engagement. FlexiPay transactions quadrupled in 2023 to £234 million and we have over 6,500 active FlexiPay accounts. Businesses have now FlexiPayed more than 80,000 times since we launched.
- This year we continued to scale FlexiPay through the launch of FlexiPay card, which enables customers to finance their day-to-day spend from anywhere.
- In line with FlexiPay having reached sufficient maturity and scale, we also secured senior debt funding from Citibank which is helping to accelerate FlexiPay growth and diversify our funding sources.

Three core foundations

Technology and data to enable innovation at pace

- Investing in our technology and ever-expanding data lake to deliver superior customer service and better meet the needs of SMEs.

Scalable products and processes

- Serving more businesses through an expanded set of personalised Funding Circle products and further integration with third party lenders.

High performing teams executing brilliantly

- Investing in our people and our culture to make our business stronger and deliver on our strategy.

How we measure our performance

Financial | Statutory

Total income (£m)

£162.2m

2021	206.9
2022	151.0
2023	162.2

Definition

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

Links to strategy:

1 2 3 4

(Loss)/profit before tax (£m)

£(33.2)m

2021	64.1
2022	(12.9)
2023	(33.2)

Definition

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

Links to strategy:

1 2 3 4

Basic (loss)/earnings per share (p)

(11.1)p

2021	17.4
2022	(2.0)
2023	(11.1)

Definition

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

Links to strategy:

1 2 3 4

Operational

Originations (£m)

Loans originations

£1,456m

2021	2,296
2022	1,422
2023	1,456

FlexiPay transactions

£234m

2021	4
2022	59
2023	234

Definition

This represents the monetary value of loans originated through the Group's platform or through Marketplace referrals in any given year as well as drawdowns on the FlexiPay lines of credit. These are key drivers of transaction and servicing fees for the loans businesses and the upfront fee for the FlexiPay business.

Links to strategy:

1 2 3 4

Loans under management (£m)

Loans under management

£3,284m

2021	4,457
2022	3,725
2023	3,284

FlexiPay balances

£56m

2021	2
2022	18
2023	56

Definition

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

Links to strategy:

1 2 3 4

Focus areas relevant to our KPIs

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

Financial | Alternative performance measures ("APMs")

Adjusted EBITDA (£m)

£(3.9)m

2021	91.8
2022	9.5
2023	(3.9)

Definition

Adjusted EBITDA represents the profit/(loss) for the year before finance costs (the discount unwind on lease liabilities), taxation, depreciation and amortisation, impairment and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items. This is the principal profit measure used by the Directors in assessing financial performance in the Group's four segments.

Links to strategy:

1 2 3 4

Free cash flow (£m)

£(4.9)m

2021	82.8
2022	(14.4)
2023	(4.9)

Definition

Free cash flow represents the net cash flows from operating activities less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows and lines of credit cash flows. The Directors view this as a key liquidity measure.

Links to strategy:

1 2 3 4

Delivering on our commitments

We want to have a positive impact on our communities and the environment, not only through the lending we provide to our SMEs that often struggle to find financing, but also through sound ESG practices that are key to achieving our mission and strategic objectives.

Our ESG Strategic Pillars

Diversity, Equity and Inclusion ("DEI")	Social impact	Climate change and environment	Governance and risk management

Relevant policies can be found on the Company's Sustainability webpage here:

Our ESG framework sets out our short and long term goals for each strategic pillar

DEI

Our vision and commitment	To be best in class and live by our DEI statement, building an inclusive and diverse culture

Achievements in 2023

- Achieved our lowest gender pay gap result at 17.4% (mean)
- Delivered our second female empowerment programme, with a specific focus on ethnic diversity
- Deployed a programme of allyship training globally to further our education and understanding

Goals and roadmap for 2024

- Continue to make progress against key DEI metrics and targets, including women in leadership and the gender pay gap
- Provide ongoing and targeted training and support for our managers and all Circlers in support of our goals
- Continue to build out our Circler group infrastructure and ecosystem

STRATEGIC REPORT | CORPORATE GOVERNANCE | FINANCIAL STATEMENTS

Social Impact

Our vision and our commitment

To support a diverse SME customer base: creating jobs, fostering financial inclusion, having a positive impact and providing opportunities, whilst having a multiplicative effect on the wider community

Achievements in 2023

- Renewed partnership with Hatch Enterprise to empower underserved social entrepreneurs and promote employee mentoring, with 140 businesses supported and 74 volunteer hours through mentoring and "friendly dragon" days
- Launched partnership with Thrive Mental Wellbeing support app, trusted by the NHS, providing free or discounted access to all SMEs in the UK
- Increased number of employee impact days from 124 in 2022 to 225 in 2023, including through corporate partnerships, delivering against our goal of 100 volunteers and 150 volunteer hours. More than 50 UK Circlers volunteered with a conservation trust, 135 US Circlers gave time to a water purification project, and others fed people in need with the charity Refuge Network International

Goals and roadmap for 2024

- Progress commercial product strategy review, targeting positive social and sustainability outcomes for borrower customers
- Build on social impact opportunities in the UK business.

Climate change and environment

Our vision and our commitment

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

Achievements in 2023

- Achieved operational carbon neutrality for US and UK operations for 2022 application period, and completed first measurement of full Scope 3 emissions for 2023
- Completed financed emissions heat map of physical and transition risks, and roadmap to fully align to TCFD recommendations
- Co-funded a Tiny Forest project in Peckham, UK, through Earthwatch Europe, planting 1,200 trees and taking part in a citizen science day
- Through our partner Revivn, repurposed 222 computers and recycled 723lbs of electronic devices from our London office

Goals and roadmap for 2024

- Implement year one of TCFD climate risk roadmap
- Begin process to set science-based targets, aligning with the Science Based Targets initiative ("SBTi")
- Earthwatch Europe partnership expanded for 2024, participating in five Tiny Forest projects in support of the UK's Tiny Forest movement

Governance and risk management

Our vision and commitment

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

Achievements in 2023

- Became signatories to the Partnership for Carbon Accounting Financials ("PCAF"), and carried out peer and best-in-class ESG benchmarking
- Board and Global Leadership Team ("GLT") completed climate risk and TCFD training
- Published ESG-related policy statements on our Sustainability webpage to improve stakeholder access to information

Goals and roadmap for 2024

- Prepare for UK introduction of ISSB/ IFRS S1, S2; and development of Transition Plan
- Assess, map and develop integration and reporting of UN SDGs with our global ESG framework
- Assess and approve Human Rights statement

Environment, social and governance ("ESG") continued

ESG governance

Our ESG governance framework has been structured to address relevant risks and opportunities, taking into consideration strategic ambitions informed by our engagement with our diverse stakeholders.

More detail on corporate governance on page 66

More detail on risk management on page 52

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

Board

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

Audit and Risk Committee ("ARC")
Responsible for oversight and management of ESG risks, including climate-related risks and corporate reporting

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

Management

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

Global Leadership Team ("GLT")
Responsible for establishment, implementation and management of ESG strategy

Group Chief Risk Officer ("CRO")
Executive owner of ESG risk management

Group CEO
Executive owner of ESG strategy

Group General Counsel/Chief People Officer ("GC/CPO")
Executive sponsor of ESG programme implementation

Business unit committees

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

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

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

Our People – High performing teams, executing brilliantly

We believe that our employees are our greatest asset, and our goal is to create a company people want to be part of – where they can be themselves, learn and grow. Our people policies are designed to enable and support our mission and culture, explain the values and behaviours we hold ourselves accountable to, and set the highest standards. In a year of continued economic challenge, the strength and commitment of all Circlers has shone through as we continue to serve our customers. Moreover, our teams remain dedicated to ensuring Funding Circle is a place people love to work – through initiatives delivered by our Circler groups, actively enhancing hybrid working, representing us in the community, and continuing to champion our culture.

Our commitment to push for more

We know culture never rests, so we continue to evolve. That is why our people strategy, High Performing Teams Executing Brilliantly, is a core foundation of our 2024 business strategy. Over the course of 2023 we continued to challenge ourselves on how we do things. This included increasing our focus on impact and performance, pushing ourselves to raise the bar in everything we do. We also redefined how we think about leadership, launching a new set of commitments to help drive the business forward that our leaders are expected to meet. These commitments will also form the basis of our 2024 leadership development programme. We also took time to educate Circlers about the value of goal setting, and adopted OKRs as our organisational framework to track progress.

Embedding our values

In 2023 we continued our series of borrower visits with 38 Circlers meeting ten businesses, ranging from Joe & Seph's Popcorn to Constructive & Co furniture makers. We share the stories of these visits with the wider organisation to help everyone gain a better understanding of our customers. We expanded our recognition programme in 2023 to further embed and celebrate our six values by launching the Values Awards. Together with our 'Incredible Circlers' awards, these are opportunities to spotlight Circlers who have lived our values and share their experiences with everyone at Funding Circle.

Diversity Equity and Inclusion (DEI)

DEI is at the heart of who we are at Funding Circle. We continue to drive progress and remain very proud of our Circler-led strategy. Across the business our six Circler groups delivered more than 100 events and initiatives in 2023.

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

Our DEI statement

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

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

For more information on our People policies and key metrics please see the Company's Sustainability webpage.

Our values

Our values represent how we do things at Funding Circle. They are the linchpin that enables us to push for more. They are how we challenge ourselves, and how we hold ourselves and each other to account, as we achieve our mission. They are firmly part of our DNA.

Find out more online

84%
of Circlers recommend Funding Circle as a great place to work

83%
believe they have equal opportunities to succeed at Funding Circle

79%
believe they can be their authentic selves at work

17.4%
mean gender pay gap

34%
women in leadership

42%
all Circler gender diversity (female)

Environment, social and governance ("ESG") continued

Social Impact

We aim to support impactful initiatives that deliver positive social outcomes for SMEs and communities.

We value financial inclusion, the job-creating power of SMEs, and potential multiplying effect that they can have on wider society. Our borrowers sit at the heart of many communities and are widely distributed across a broad geographic and socio-economic range.

You can read more about these outcomes in our annual Impact Report.

Find out more online

Our Circler Groups

Our employees drive positive social outcomes through a wide variety of initiatives, groups and events. We continue to offer Circlers two paid volunteer "Impact Days" a year so that they can positively contribute to causes they are passionate about.

Women @ FC
Building a community where women connect, thrive and win.

Parents @ FC
Providing a supportive space and a network for working parents.

Neurodiversity @ FC
Spearheading the discussion about how neuro differences add value, and building the infrastructure for an equitable and accessible workplace.

Let's Talk About Heritage
Educating on the experiences of minorities, celebrating racial diversity, and creating a safe space to continue engaging in dialogue.

Circle of Pride
Championing inclusion for all by building an open community and celebrating LGBTQIA+ contributions.

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

Funding Circle partners with Thrive

We launched a partnership with the Thrive Mental Wellbeing app, offering all UK SMEs with up to 250 employees free or discounted access to mental health support. The app is trusted by the NHS and provides help anytime, anywhere. In our recent Resilience in SMEs report, we found that only 41% of SME leaders believed their staff's mental health had improved in the past 12 months, and 88% told us it was an area they wanted to focus on. We are also giving access to Thrive Mental Wellbeing with unlimited in-app therapy to our most vulnerable borrowers.

Funding Circle partners with Wine to Water

To bring our year to a close in the US, we partnered with Wine to Water, a global non-profit preserving life and dignity through the power of clean water. 135 Circlers helped build 180 filtration systems that will help provide 2,160 people with clean water for ten years. Founded in 2004, Wine to Water develops sanitation and hygiene solutions in direct partnership with local leaders. Its work creates impact beyond water to improve environmental sustainability, education, women's empowerment, healthcare and economic growth.

Funding Circle partners with Tiny Forest

We partnered with Tiny Forest to co-sponsor a micro-forest project in Peckham, South London. Through its programme of planting small forests in ecologically deprived areas nationwide, Tiny Forest reconnects people with nature, enhances wellbeing, helps mitigate the impacts of climate change and provides nature-rich habitat to support urban wildlife. We are excited to expand our partnership with five new Tiny Forest sites across the UK planned for 2024, as part of the Local Authority Treescapes Fund.

Funding Circle partners with Hatch Enterprise

We renewed our collaboration with Hatch, which provides tailored support, community and partnerships to empower underrepresented entrepreneurs – helping them imagine, launch and grow sustainable and impactful businesses.

Volunteers from Funding Circle mentored start-ups with skills to help them launch, develop or scale their businesses. We provided over 74 hours of volunteer time, supporting 140 founders. Of these, 78% identified as female entrepreneurs, and 49% were from Black, Asian or Minority ethnic backgrounds.

Hatch launched in Brixton, London, in 2014, to build a fairer society and find solutions to the issues faced by underrepresented businesses. To date, the charity has supported over 7,800 UK entrepreneurs through its flexible community-based support and tailored programmes. Over 80% of Hatch graduates are women or from another marginalised gender; during 2023, 64% of participants were black or from another ethnic minority group, and 83% reported focusing on at least one Sustainable Development Goal in their business.

Environment and Climate

This section includes our mandatory reporting of greenhouse gas emissions ("GHG") in line with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and the Streamlined Energy and Carbon Reporting ("SECR") under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our GHG emissions reporting period is 1 January to 31 December and is aligned with our financial reporting year. We did not undertake any specific measures to reduce our emissions during 2023. Our 2021 emissions footprint is used as the baseline year for our carbon neutrality commitment.

Net zero

We are committed to reducing our impact on the natural environment. Our ambition is to reach net zero by 2050 in line with the UK government's commitment, while setting a stretch target to reach net zero by 2030 for our operational emissions (which we define as Scopes 1, 2, and Scope 3 excluding financed emissions). As an interim step, we have a commitment to carbon neutrality (in accordance with PAS 2060:2014) for our operational carbon emissions, which we successfully achieved for the 2022 application period, through the purchase and retirement of quality carbon offset projects. The offset projects are verified in accordance with the Voluntary Carbon Standard and the Gold Standard. They are a mix of carbon avoidance and removals that include a carbon utilisation technology for the concrete industry, an indigenous-led forest conservation project, and a bio-ethanol fuel cookstove project.

We have not yet developed a transition plan or set science-based targets to map our journey to net zero by 2050. However we continue to progress our climate strategy with a goal to begin the process of setting science-based targets in 2024 (one year later than our original plan). As described more below, we are at an early stage of understanding our largest sources of Scope 3 emissions – those arising from our financed emissions (GHG Protocol Category 15), which we are reporting here for the first time. As described more below, there are a number of challenges to measuring and meaningfully addressing reductions in financed emissions for SME lending. However, we believe it is important to start that journey and we are eager to be a positive contributor to the discussion on finding solutions for the industry.

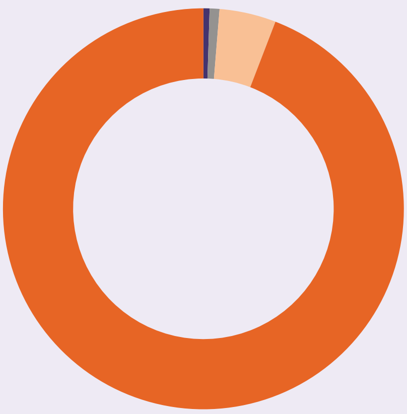
Environment, social and governance ("ESG") continued

Environment and Climate continued

Total emissions (market based)
by emissions source by year, excl. 3.15 (tCO_2e)

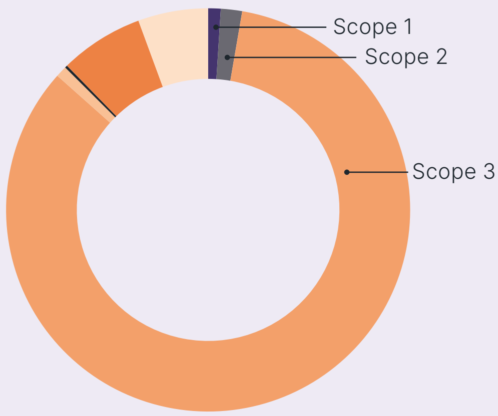
2023 includes newly reported Categories 3.1, 3.3 and 3.7

Total emissions 2023 (market-based)
by Scope 1,2 and 3 (3.1-3.15)



Scope 1	0.05%
Scope 2	0.08%
Scope 3 - Categories 1-14	4.62%
Scope 3 - Category 15	95.25%

Total emissions 2023 (market-based)
by Scope 1,2 and 3 (excl. 3.15)



Scope 1	
1. direct emissions	1.0%
Scope 2	
2. purchased electricity, steam, heat, and cooling	1.7%
Scope 3	
3.1. purchased goods and services	83.8%
3.3. fuel and energy related activities	1.0%
3.5. waste generated in operations	0.1%
3.6. business travel	6.7%
3.7. employee commuting	5.6%

Category 3.8. (leased assets) represents 0.1% and is not shown here.

Funding Circle Holdings plc Global GHG Emissions[1]

Global GHG emissions data for period 1 January to 31 December		2023 tCO_2e	2022[7] tCO_2e	2021[8] tCO_2e	2020 tCO_2e[5]
Scope 1[2]		**108**	77	129	132
Scope 2[3] – location based		**265**	313	340	378
Scope 2[3] – market based		**190**	239	411	437
Total gross emissions (Scope 1 and 2)	**– location based**	**373**	390	469	510
	– market based	**298**	316	540	569
Scope 3 – Category 1 purchased goods and services		**9,217**	n.a.	n.a.	n.a.
Scope 3 – Category 3 fuel and energy activity (market-based)		**104**	n.a.	n.a.	n.a.
Scope 3 – Category 5 waste generated in operations[5]		**15**	6	3	27
Scope 3 – Category 6 business travel		**740**	563	113	15
Scope 3 – Category 7 employee commuting (market-based)		**612**	n.a.	n.a.	n.a.
Scope 3 – Category 8 upstream leased assets (market-based)		**8**	n.a.	n.a.	n.a.
Total Scope 3 supply chain gross emissions[4, 5]	**– location based**	**10,651**	569	116	42
	– market based	**10,696**	569	116	42
Total gross emissions (Scope 1, 2 and 3 excl. 3.15)	**– location based**	**11,024**	959	585	552
	– market based	**10,994**	885	656	611
Scope 3 – Category 15 investments: financed emissions – all loans under management		**2,886,452**	n.a.	n.a.	n.a.
Scope 3 – Category 15 investments: financed emissions – loans on balance sheet		**220,357**	n.a.	n.a.	n.a.
– 3.15 – loans on balance sheet: Scope 1 and 2 (tCO_2e)[6]		**71,143**	n.a.	n.a.	n.a.
– 3.15 – loans on balance sheet: Scope 3 (tCO_2e)[6]		**149,214**	n.a.	n.a.	n.a.
Total gross Scope 3 emissions (incl. 3.15)– (market-based)		**231,053**	n.a.	n.a.	n.a.
Total gross emissions (Scope 1, 2 and 3 incl. 3.15)	**– location based**	**231,381**	n.a.	n.a.	n.a.
	– market based	**231,351**	n.a.	n.a.	n.a.
Full-time employee ("FTE") (average over the applicable reporting period)		**1,074**	1,035	929	1,002
Total income (£m)[9]		**162.2**	151.0	206.9	222
Intensity ratio (Scope 1 and 2): tCO2e/FTE	**– location based**	**0.35**	0.38	0.50	0.51
	– market based	**0.28**	0.31	0.58	0.57
Intensity ratio (Scope 1 and 2): tCO_2e/£m – location based		**2.30**	2.58	2.27	2.30
– market based		**1.84**	2.09	2.61	2.56
Intensity ratio (Scope 1, 2 and 3 excl. 3.15): tCO_2e/FTE	**– location based**	**10.26**	0.93	0.63	0.55
	– market based	**10.24**	0.86	0.71	0.61
Intensity ratio (Scope 1, 2 and 3 excl. 3.15): tCO_2e/£m	– location based	**67.97**	6.35	2.83	2.49
	– market based	**67.78**	5.86	3.17	2.75

1. All figures presented for 2023 have not been subject to external assurance or verification.
2. Scope 1 includes combustion of fuels and operation of facilities, principally natural gas related to our leased office space.
3. Scope 2 includes electricity and steam purchased for use in connection with our leased office space. Steam data is not available for 2020.
4. Scope 3 categories other than 3.5 and 3.6 are newly included as of 2023.
5. Category 3.5 waste data for 2020 was previously incorrectly reported due to a data processing error and has been restated here.
6. For category 3.15 Investments, to ensure transparency in connection with the occurrence of double counting of financed emissions of one or more financial institutions, PCAF recommends reporting scope 1 and 2 emissions of loans separately from their scope 3 emissions.
7. We completed a third-party verification of the emissions for 2022 after publication of our 2022 annual report, and the verified 2022 emission figures are restated here. The restated total emissions (885 tCO_2e market-based) are 59% higher than previously reported, mainly due to a manual error in data processing for business travel. This was corrected during the verification process following publication of last year's report.
8. During 2021 we moved to much smaller office premises in San Francisco, which do not have any Scope 1 gas usage, hence the reduced scope 1 total in 2022.
9. Total income for 2022 has been restated; please refer to note 1 of the financial statements.

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

(Kilowatt-hour equivalent – kWhe)	Scope 1				Scope 2			
	2023	2022	2021	2020	**2023**	2022	2021	2020
Region[1]								
UK	**593,164**	457,208[2]	554,366	349,552	**359,778**	402,758	359,638	326,315
US	—	—	79,469	295,981	**385,700**	545,219	643,284	686,193
CE (Germany and Netherlands)	—	—	—	n.a.	—	—	—	72,132
Total	**593,164**	457,208	633,835	645,533	**745,478**	947,977	1,002,922	1,084,640

1. In prior years we disclosed emissions from our legacy European operations in Germany and The Netherlands. We ceased to hold office space in Germany from the end of 2020 and in the Netherlands during 2021 (although the office was unoccupied for all of 2021) and will cease reporting this information as of next reporting period.
2. Gas consumption for 2022 as previously reported included estimates and is actualised here.

Environment and Climate continued

In 2023, we continued to engage with industry experts to accurately measure our emissions and to develop strategies to reduce or offset them. We are working with leading climate change advisory firms to measure and verify our 2023 Scope 1, 2 and 3 emissions in accordance with the GHG Protocol and ISO 14064. We achieved carbon neutrality recertification (PAS 2060:2014) for our 2022 application period through the purchase and retirement of quality carbon offsets. We acknowledge that there is ongoing debate regarding the use and efficacy of carbon offsets and we will continue to explore routes to emission reductions.

GHG methodology

Our global GHG emissions accounting, shown in the tables above, follows the methodology set out by the WRI/WBCSD Greenhouse Gas Protocol (Corporate Standard). Emissions were calculated using the Watershed platform. Our emissions disclosure methodology remains largely consistent with 2022. In accordance with the SECR, we report our emissions data using an operational control approach to define our organisational boundary. In line with our environmental reporting criteria, we report on all material sources of GHG emissions from our business. Energy usage data was collected, or estimated based on building square-footage, for all facilities, and was combined with emissions factors from the US EPA, Ecoinvent, TCR, UK DEFRA/BEIS, and other data sources to calculate GHG emissions. Electricity emissions factors are chosen based on geography to reflect the emissions intensities of the facilities' local grid. To satisfy the requirement to show an intensity ratio, we have determined that the most appropriate for our business is tonnes of CO_2 equivalent ("tCO_2e") per full time equivalent (FTE) employee, and also provide a revenue intensity ratio (tCO_2e per £m of total income).

Scope 3 –Financed Emissions (GHG Category 15)

This is the first year we are publishing our full Scope 3 emissions, including our Scope 3 – GHG Category 15 financed emissions associated with our lending activity. Financed emissions are the greenhouse gas emissions linked to the investment and lending activities of financial institutions. They are often the most significant part of a financial institution's climate impact. They inform the starting point for portfolio target setting and steering towards an organisation's Net Zero goals. As an online lending platform rather than a more traditional financial institution, a relatively small portion of the financed emissions arising from our loan products form part of our carbon footprint, as it is generally being limited to loans that are owned or consolidated on our balance sheet. The majority of financed emissions related to our loan products form part of the carbon footprint of the respective investors who own those loans that we have originated through our loan platform. Nevertheless, for transparency, we have provided Scope 3 financed emissions data in respect of our entire portfolio of loans under management, rather than simply those loans that form part of our own on-balance-sheet financed emissions.

The financed emissions calculation was carried out in accordance with the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard (PCAF Standard) methodology for business loans. We used the PCAF Database version based on 'Exiobase v3.9, base year 2019' to source emission factors. It should be noted that this calculation is derived from data that is generally of low quality and accuracy, and the calculation includes a number of assumptions which can materially affect the final calculated emissions. This means we can provide no assurance as to the accuracy of the final calculated emissions.

PCAF offers a methodology to attribute GHG emissions of borrowers to financial institutions with three options to calculate emissions depending on the source and quality of data available. The Company has used the "economic activity-based emissions" option based on data availability. Under this method, the borrower's annual emissions are estimated based on economic emission factors that indicate the volume of CO_2 emissions per £ or $ of revenue. The financial institution accounts for a portion of the borrower's annual emissions, as determined by applying the ratio between the outstanding amount and the value of the financed company (referred to as the attribution factor) to the borrower's annual emissions. Lastly, in the case of Funding Circle, a percentage allocation is applied to isolate the emissions for the loans held on the Company's balance sheet, where applicable, with the remainder relating to loans held by third party loan investors.

The PCAF Standard provides for data quality scoring from one to five. This is to enable financial institutions to develop a strategy to improve data over time, with one representing the highest quality data, and five the lowest quality. The exposure weighted data quality scores for the Company's total portfolio of loans was 4.01 and 4.18 for the UK and US, respectively. We have identified a number of areas that may allow us to improve that data quality score, but we are not actively planning to take specific actions to improve it as part of our current 2024 plans.

For more information on the PCAF methodology please see PCAF (2022), the Global GHG Accounting and Reporting Standard Part A: Financed Emissions, Second Edition.

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

Year-on-year progress

- Completed roadmap to full consistency with TCFD recommendations, with two-year implementation period (beginning in 2024).
- First reporting of full Scope 3 emissions in this report.
- Developed physical and transition risks heat map of loan book financed emissions.
- No material progress to set metrics, targets, or conduct quantitative scenario analysis, but plan to progress these areas in 2024.
- Undertook commercial review exploring loan product opportunities related to financing for sustainability uses, which showed muted customer demand as well as significant gaps in loan pricing and return expectations.

Materiality Assessment

This statement of compliance and the information provided below have been prepared on the basis of our materiality assessment of climate-related risks and opportunities to the business over the short (less than one year), medium (one to five years) and long term (more than five years). It has generally assessed these risks and opportunities as not being material to the business over the short to medium term. Further details are provided in the following table. This assessment will remain subject to annual review, given the complexity of the issues, the availability and quality of data, the evolving practices in this area, the longer-term implications of climate change on our customers and business, and our strategic approach to climate-related risks and opportunities. The conclusions based on this assessment are subject to change as more and better information and understanding become available. See "Risk & Control Self Assessment" on page 40 for more information on how our assessment of climate risk informed our materiality assessment. In terms of climate-related opportunities, our methodology for determining materiality has largely been driven by our commercial strategy and product teams assessing product and service opportunities related to green finance, customer demand analysis and the competitive landscape in the short to medium term.

Compliance statement

The Company has made climate-related financial disclosures consistent with the TCFD recommendations for the current reporting year, or as explained otherwise, in the following areas:

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

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

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

Please see the following table for more information on our plan and expected timings to address items where only partial disclosures have been provided. Also see "Risk management – Principal risks and uncertainties" on page 56 for a description of those risks which we believe are material.

The Company has considered the TCFD's Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (2021 update), Guidance for All Sectors and Supplemental Guidance for the Financial Sector (in this regard we considered the Supplemental Guidance for Banks relating to lending activity, noting, however, that Funding Circle is not a bank and does not share many of the risks that may arise in larger banking institutions). The Company has also considered the Financial Conduct Authority's Review of TCFD-aligned Disclosures by Premium Listed Commercial Companies (July 2022) and the Financial Reporting Council's CRR Thematic Review of TCFD Disclosures and Climate in the Financial Statements (July 2022).

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

Governance	Disclosure	Cross reference	Disclosure level
(a) Describe the Board's oversight of climate-related risks and opportunities	The Board retains ultimate responsibility for providing the strategic focus, support and oversight for the implementation of the Group's ESG strategy, including climate-related risks and opportunities. The Board delegates certain matters related to climate-related risks and opportunities to two Committees: › the ESG Committee ("ESGC") is responsible for oversight of the Group's overall ESG strategy, including climate-related opportunities and voluntary commitments; and › the Audit and Risk Committee ("ARC") is responsible for oversight of risk management related to ESG risks, including climate-related risks. To date, climate-related risks have been deemed as not material in the short term. Generally, climate-related matters do not form a significant area of consideration for the Company at this time and have not been a regular item of consideration for the Board. Nonetheless, given the complexity, stakeholder interest, regulatory focus and longer-term implications of the TCFD recommendations and climate change more broadly, the Board has nominated Matthew King for climate-related initiatives to work with the Global Leadership Team and other senior leaders to progress the Group's efforts on climate-related activities. Matthew brings experience as a Non-Executive Director of other more resource-intensive industries where climate change is of critical focus. His role as Board champion is to provide additional Board level access, support and independent challenge directly to the ESG team as we develop our approach to climate change. More generally, the Board and the ESG Committee have substantial and varied experience with ESG-related issues, and climate change in particular. Within the wider Board, Eric Daniels has been on the Advisory Board of the Smithsonian Tropical Research Institute ("STRI") for the past ten years. STRI is recognised as one of the premier scientific institutions in the fields of tropical life sciences and sustainability. He has also been an active supporter of the Atkinson Center for Sustainability at Cornell University. In addition Geeta Gopalan currently serves as Non-Executive Director and Chair of the risk committee for Virgin Money plc where she has gained substantial experience in respect of ESG-related risk management, including climate-related risk in the banking sector. To further support the Board, we have sought expert advice on our environment and climate change strategy, and provided internal and external presentations to the ESG Committee and GLT to increase their awareness and understanding of our carbon strategy. In 2023 we also provided training for the Board and GLT specifically focused on climate risks and TCFD. The Board has reviewed and approved our ESG framework and our approach to climate change and the environment.	Please also see the "Report of the ESG Committee" on page 92 and the "Report of the Risk and Compliance Committee" on page 90 for more information on oversight of climate-related risks and opportunities	**Full disclosure**
(b) Describe management's role in assessing and managing climate-related risks and opportunities	Overall executive responsibility for ESG-related matters, including climate-related risks and opportunities, is held by the CEO. The GLT is responsible for implementing our ESG framework's climate-related actions, including strategy related to opportunities and climate-risk management in line with our Enterprise Risk Management Framework ("ERMF"). Responsibility for strategy sits with the CEO and risk management with the Chief Risk Officer. Day-to-day management responsibility for execution and delivery of business activity related to climate risks and opportunities sits with the Global Head of Legal and Regulatory. Any material climate-related risk issues can be escalated to the Chief Risk Officer, the Management Risk Committee and the ARC, as applicable. For most related projects, reporting and implementation are handled by subject matter experts and function managers. See the table titled "ESG governance" for more information. Given our materiality assessment in the short term, and also the limited size and complexity of the business, there is currently limited formalised reporting to the GLT or the Board specifically in respect of climate-related risks and opportunities. Climate-related risks are assessed in line with our ERMF, and reviewed and approved by the ARC on an annual basis. As described in more detail throughout this table, climate-related risks and opportunities are currently not considered material in the short term. In light of this, there has been limited subject matter for consideration by the MRC, the ARC or other entity risk committees; however, we expect this to evolve over time. Climate-related opportunities have been considered through a strategic review carried out in 2022 and 2023 to establish areas of focus, level of commitment and priorities. The outcome of this review was subject to approval of the GLT and ESGC.	Please see also "Risk management — Environmental, social and governance risk" on page 57	**Full disclosure**

Governance	Disclosure	Cross reference	Disclosure level
(b) Describe management's role in assessing and managing climate-related risks and opportunities continued	Generally, in respect of day-to-day management of climate-related risks and opportunities, senior managers leading various projects report to the GLT periodically and on an ad hoc basis to set strategy, maintain alignment on goals, report on progress and identify areas of importance. GLT members and senior managers also periodically report progress and provide updates to the ESG Committee, local leadership teams and the wider business. To date, climate-related matters have not formed a significant part of financial management, and have largely been limited to costs related to risk management consultancy, reporting, carbon accounting and carbon offsetting.		

Strategy	Disclosure	Cross reference	Disclosure level
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	The Company does not consider climate-related risks and opportunities to be material to the business, strategy and financial planning over the short to medium term as set forth in more detail in (c) below. We have nonetheless identified relevant climate-related risks and opportunities over the short (one year or less), medium (one to five years) and long (more than five years) terms. This is with a view to transparency and establishing a practice for such disclosure as these issues evolve and mature. These time periods are consistent with those used in respect of other risks identified pursuant to our ERMF and our approach to strategic planning. Our materiality assessment has been largely qualitative, and has been informed by a variety of information sources in consideration of both risks and opportunities. These include stakeholder (including borrower, loan investor and shareholder) feedback, competitive landscape assessment, feedback from internal product teams, and risk assessments in line with our ERMF. The potential climate-related risks and opportunities faced by Funding Circle include the following: **Transition risks** › **Reputation:** short to medium-term failure to comply with climate change-related regulations or to achieve goals may negatively impact our public perception, increase stakeholder concern or negative stakeholder feedback. › **Strategic:** short to medium-term lack of SME climate-related data or changes in customer demand for green finance products, or increases in carbon offset costs, climate reporting and regulatory compliance costs or transition costs may adversely impact the business. › **Funding:** medium to long-term changes in investor demand or available capital as a result of climate-related policies may impact platform liquidity. › **Credit:** medium to long-term impact on higher carbon-emitting industries due to climate-related regulations, carbon taxes, carbon pricing or transition costs, or inadequate climate-related stress testing. › **Policy and legal:** medium to long-term imposition of new climate-related regulations or more onerous reporting obligations on our business, our customers, or our products. **Potential financial impacts** › Reduced revenue due to lower demand for products and services. › Write-offs, asset impairment, and early retirement of existing assets due to policy changes or repricing of assets (e.g. loan valuations). › Increased operating costs (e.g. higher regulatory compliance costs). **Physical risks** › **Credit:** short to medium-term, the risk of acute physical impacts from climate-related weather events, and long-term climate change-related environmental damage, may impact SME borrowers' operational and credit performance, or availability of financing to SMEs more generally. › **Funding:** long-term investor demand may be impacted acutely or more generally in respect of risk appetite regarding borrowers being potentially significantly affected by physical effects of climate change. Overall investor liquidity may also be impacted by acute or chronic adverse environmental events.		**Full disclosure**

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

Strategy	Disclosure	Cross reference	Disclosure level
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term continued	**Potential financial impact** › Reduced revenue from deteriorating borrower credit quality. › Reduced revenue due to lower demand for products and services, write-offs and early retirement of existing assets (for example, impacted borrowers and loan assets in "high-risk" locations). **Opportunities (short to medium term)** › **Strategic:** green finance products to help finance SME transition. › **Funding:** institutional investor demand for green or sustainable loan portfolios. **Potential financial impacts** › Increased revenue through access to new and emerging markets. › Increased access to capital and liquidity, and increased revenue through new products and services related to ensuring resilience or adaptation. In 2023 we began an exercise to test our understanding of climate risks in respect of our loan products and borrower customers by conducting a risk mapping exercise on our loan portfolio related to transition and physical risks of climate change. This exercise looked at borrowers across our full loan book to assess the likelihood and severity of climate risks and impacts, with a view to mapping those borrowers by industry sector and geography to identify areas of relative higher or lower risk. This exercise did not explore a time horizon in respect of risks; however, generally, we believe that transition risks related to the transition to a low-carbon economy likely present more significant risks for us and our customers than the physical risks of climate change over the short to medium term. The mapping exercise looked at transition risks such as regulation, cost of materials, technology, market demand changes and reputational risks; and physical risks such as wildfire, storm events, draught, coastal flooding, surface water flooding, fluvial flooding, and temperature events (high and low). It is too early to draw many conclusions from the exercise but we do believe it will help us to identify risk concentrations, define risk reduction strategies, consider exclusion or concentration criteria, and define opportunity areas. We are yet to engage meaningfully with the longer-term implications of climate change, in particular in light of the short maturity and shorter weighted average life of our loan book. Nonetheless, the risk mapping exercise does help us start to consider areas of risk that may in future become more material so that we can begin to consider those at the appropriate time. We have continued to deepen our understanding of the risks and opportunities of climate change in respect of our SME customers, loan investors and shareholders. In respect of SME customers, currently there is very limited data and significant issues with data quality related to climate-related impacts on SMEs to support more detailed quantitative analysis. To date we have seen limited appetite for green finance-related products and modest engagement on climate-related topics through our engagement with SME customers. Similarly, we have seen limited loan investor appetite in respect of green finance-related products, as well as climate change more generally, and no material willingness among loan investors to accept a lower yield for such products as compared to other comparable risk products. Lastly, while there is from time to time some interest from various other stakeholders such as shareholders, employees or other counterparties, none of these stakeholders have expressed material interest in our approach to climate change risks and opportunities. Over the coming two to three years, we will continue to explore ways to improve data quality and availability, and also continue to work with experts and policymakers to consider good practices in this area. We will also continue to engage with stakeholders as the market and our approach matures.		

Strategy	Disclosure	Cross reference	Disclosure level
(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	To date, the impact of climate-related risks and opportunities on our business and strategy has been limited, and our efforts in this regard are at an early stage and limited in scope. In the short to medium-term, the Company does not consider climate-related risks and opportunities to be material to the business, strategy or financial planning. To date we have not quantified the potential short, medium or long-term financial impacts in respect of transition or physical risks associated with climate change, and we currently do not have any material strategic opportunities related to climate change that are part of our strategic or financial plan. The current financial impact on our business from climate-related risks and opportunities has been primarily limited to fees and costs linked to compliance with reporting obligations and delivery of our longer term net zero ambition. These include climate risk consultancy, carbon accounting and verification, neutrality certification, the purchase of carbon offsets and reporting. These costs are likely to increase in future; however, we do not believe they will be material in the short to medium term and we have yet to carry out a detailed forecasting of these costs beyond an annual budget process. In 2023 we have continued to explore commercial opportunities in respect of ESG-related product strategies including climate-related opportunities. However, these are not considered to be material or a priority in respect of business strategy or financial planning. We do not expect such opportunities to form a material component of the business strategy in the short to medium term but we will continue to explore opportunities to progress customer focused efforts as part our ESG framework. During 2023 we also performed a gap analysis in respect of our TCFD reporting consistency and developed a climate risk roadmap that sets out a plan to move towards full consistency with the TCFD recommendations over the coming two years, as well as considering the application of IFRS S2 reporting standards. In respect of our general business operations, our priorities for 2024 are progressing our climate risk roadmap to deliver full alignment with TCFD reporting requirements, developing a transition plan (including metrics and targets) in respect of emissions from our own operations, and progressing our understanding of science-based targets. It is likely to take significantly longer to understand strategies aimed at reductions in financed emissions related to our lending products, but we have continued to explore this, as part of industry group initiatives and with advisers.	See also "Viability statement" on pages 64 and 65 regarding our assessment of the impact of environmental stress, relative to other stresses and their impact on the Group in the near to medium term	**Partial (1/2)**
(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	We have not yet carried out a detailed quantitative climate-related scenario analysis. In the short to medium term, the Company does not consider climate-related risks and opportunities to be material to the business, strategy or financial planning, in particular relative to other risks applied under existing stressed assumptions and strategic objectives over these time periods. Qualitatively, we believe our business and strategy should be resilient under different climate-related scenarios over the short to medium term, including a 2°C or lower scenario. Given the nature of our business, we believe that the longer-term risks identified in connection with more severe climate-related risk scenarios are not currently material considerations for the business, given our relatively short to medium-term time horizons for strategic planning. This conclusion will of course be subject to change as the transition and physical risks of climate change become more immediate. These include any government responses to climate change, and as customer and stakeholder attitudes change; however, as of the time of this Annual Report, we believe our current strategic approach is sufficient. As an online platform business, we have a limited physical presence and very limited capital goods exposed to climate-related risks. In respect of our loan products, our relatively short-term and data-driven products allow us to implement changes to our products, credit strategy, marketing and contractual terms relatively quickly. This means we can adapt to changes resulting from climate change and rapidly shift out of, or assist in the transition of, impacted industries. Our loan products are relatively short in duration (with a maximum term of up to six years and, given the effects of portfolio composition by term, loan size, defaults and prepayments, our loans under management have a weighted average life of approximately 10 to 24 months, varying by product type and vintage year of origination). In addition, our loan products are unsecured; therefore, we do not currently focus on certain longer-term climate-related risks, including physical risks that could adversely affect various forms of security, such as real estate, or which are currently beyond our strategic or risk planning time horizon.		**Partial (1/4)**

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

Strategy	Disclosure	Cross reference	Disclosure level
(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario continued	Our SME customer base comprises of a large number of small business borrowers, broadly distributed by industry sector and geography across the US and UK, and with loans of relatively small size (i.e. is highly granular and heterogeneous). Given this lack of concentration risk, except in extreme scenarios, our overall borrower portfolio should be resilient to transition risks, such as increased costs or regulation, or the localised or regional impacts of physical risks. Nonetheless, as noted in this report, we have started the process of understanding our loan book emissions data and related climate risks. We have much more learning to do related to this exercise and the data quality and data availability are quite low; therefore, it is too early to draw any meaningful conclusions from this data. For example, we can identify, segment and quantify borrowers by industry sector using assumptions to categorise borrowers, in principle, into higher or lower emitting industries. However we cannot identify if an individual business is in fact higher or lower emitting, as we do not currently collect direct primary emissions data from borrowers (and there is currently no industry standard or requirement for these businesses to measure, calculate or report this information). Lastly, in respect of loan funding and platform liquidity, we draw on a diverse pool of institutional investors to fund our loan products and we are able to adapt quickly to changing investor needs, which improves our funding resilience. To date, generally loan investors have not required any eligibility criteria or reporting related to emissions arising from lending activities, nor has this been an active area of discussion among our investors more generally. We expect this area to evolve over time as banks, asset managers and other asset owners become subject to more reporting and regulatory requirements related to their investment practices. As part of our wider ESG strategy we have voluntarily set a number of strategic ambitions in connection with our environmental impact, including in connection with net zero, which are largely aimed at satisfying what we believe are evolving stakeholder expectations on these matters and potential reputational risks associated with not taking a proactive approach. Given the complexity and long-term nature of these issues, we also believe it is prudent to start our journey to better understand our impacts and our place within the climate crisis, even though we view climate-related risks as being not material in terms of risks and opportunities to the business in the short to medium term. As part of our ESG framework goals, we intend to continue to explore ESG and climate-related related product opportunities. In the longer term these may support business resilience as we develop internal capacity to understand and deliver these products should customer demand shift towards them. In addition, we are continuing to deepen our understanding of climate-related risks in respect of our financed emissions with an initial goal to understand climate-related risks on credit risk.		

Risk management	Disclosure	Cross reference	Disclosure level
(a) Describe the organisation's processes for identifying and assessing climate-related risks	Our ERMF describes our risk management approach and supports clear accountability for managing risk across the Company. To date, climate-related risks are not considered as standalone principal risks. Climate-related risk is included as a strategic risk, with responsibility and accountability for its management held by the CEO. We have identified certain limited climate-related risks as lower priority risks within other principal risk areas, primarily related to funding, strategy, reputation, and credit risk. We review our climate-related risks on an annual basis as part of the ERMF Risks and Controls Self Assessment. We assess the materiality of climate-related impacts to Funding Circle using a risk classification matrix to prioritise, classify and escalate risks and issues. This risk and control self-assessment process assesses and rates the inherent likelihood of a given risk occurring, ranging from unlikely (meaning an occurrence of once every two to five years) to frequent (meaning an occurrence of daily to weekly). It also assesses and rates the impact of a given risk on the business, based upon both financial impacts (ranging from "critical", defined as a financial impact of equal to or greater than £5,000,000, to "minor" impacts defined as financial impacts of less than or equal to £250,000), and non-financial factors such as scope of impacts on quantity and type of customer or product; reputation impacts such as media coverage; regulatory impacts ranging from increased engagement to enforcement actions; legal impacts such as increased litigation; and operational impacts such as technology or business continuity impacts causing business stoppages across varying time horizons.	See "Risk Management" on page 52 for more information on our risk management practices, and "Principal risks and uncertainties" on page 56 for more information about those risks we deem more material	**Full disclosure**

Risk management	Disclosure	Cross reference	Disclosure level
(a) Describe the organisation's processes for identifying and assessing climate-related risks continued	Controls are assessed by evaluating design and effectiveness. Ultimately, risk exposure is sufficiently reduced by the control such that residual risk is considered to be within risk appetite. This methodology ensures a consistent approach to rating and prioritising key risk exposures across the Company. We applied a rating of low, medium or high in regard to materiality, impact and likelihood to cause an actual or potential negative impact on Funding Circle's financial performance or reputation. To date, our materiality assessment of climate-related risks and opportunities has been a qualitative assessment based on anecdotal observation rather than a quantitative assessment based on data metrics. We have also considered the nature of the business and the factors noted in our qualitative analysis above to help inform our assessments. We currently review climate-related risks on an annual basis, which we believe is in line with our materiality assessment of these risks and also reflects the limited availability of data. The primary areas of uncertainty for the business associated with climate-related matters are the imposition of regulations and reporting obligations, including with respect to our SME customers and institutional investors, and customer preferences regarding our products and services. During 2023 we carried out a review of our climate-related risk management integration and TCFD disclosure to develop a short to medium-term roadmap to align more closely to the TCFD recommendations. In addition, we carried out an exercise to map transition and physical risks across our loan book. Finally, we explored opportunities in respect of green finance, and are currently testing customer appetite for green finance products through our loan marketplace in the UK. Please see the following table for a summary diagram of the risk and control self-assessment matrix related to ESG risk, including climate-related risks.		
(b) Describe the organisation's processes for managing climate-related risks	We are at a relatively early stage in our management of climate-related risks, and as described throughout this table, these risks have been determined to be not material in the short to medium term, and largely are not a significant current priority for the business. We have formalised Board ownership of the overall ESG risk agenda, including climate-related risks, and clarified ownership of climate-related risk management through our ERMF, ARC and MRC. We identified a number of areas for further development, which we intend to progress from 2024 including: › implement year one of TCFD/ ISSB IFRS S2 risk roadmap (2024-2025) with a focus on climate risk management metrics and targets; › begin process to set science-based emissions reduction targets, aligning with the Science Based Targets initiative ("SBTi") guidance; › prepare for UK introduction of ISSB/ IFRS S1, S2, and Transition Plan; and › progress climate-risk scenario analysis as part of TCFD/ISSB compliance. We review climate-related risks and opportunities annually as part of the ERMF Risks and Controls Self Assessment. The conclusions based on this assessment are subject to change as more and better information and understanding become available.		**Full disclosure**
(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	We incorporate a limited number of climate-related risks into our ERMF, with a view to identifying, measuring and monitoring these risks within our business. The Enterprise Risk Management team reports to the Board and GLT on this subject, in line with the process identified in our ERMF. Additional work is needed to integrate climate-related risk management into our first and second-line teams; for example by embedding climate-related risks into our product development, strategy and training, as well as developing clearer metrics and targets to facilitate more frequent engagement to review these risks and opportunities effectively. In 2023 we made progress to develop a roadmap for making our current practices consistent with the TCFD recommendations in this area over the next two years, as well as making progress to begin to more quantitatively identify risks in respect of our loan products. Currently, we review climate-related risks and opportunities on an annual basis and they are generally not considered a significant priority for the business in the short to medium term. Over the coming two to three years, we will continue to explore the climate-related risks and opportunities, and also continue to work with experts and policymakers to consider good practices in this area which is still at a very early stage of development.	See "Risk management" on page 52 for more information on our risk management practices	**Full disclosure**

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

Metrics and targets	Disclosure	Cross reference	Disclosure level
(a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	We have limited available metrics to assess climate-related risks and opportunities. As we have determined that these risks and opportunities are not material in terms of strategy or risk management in the short to medium term, we do not currently engage with these metrics on a frequent basis, typically only annually. We have begun to explore data that would afford us more opportunities to review metrics related to our loans under management, for example by sector classification code and our recent measurement of financed emissions. However, this provides only limited information and requires further work for us to improve data quality and to derive more decision-useful information. It is too early for us to draw any meaningful conclusions from this data, but we believe it will help to inform our understanding of climate-related risks and opportunities as data availability and quality improve. We do expect to continue to develop further metrics to monitor climate-related risks and opportunities in respect of our loans under management; however, we believe this will be part of a longer-term process. In respect of our general business operations, we anticipate developing metrics and targets in respect of our operational emissions and reduction plans during the course of 2024 (a year later than originally planned). Our climate-risk roadmap has steps to address the identification of metrics and setting of targets over the next one to two years with a goal to be consistent with the TCFD recommendations. We have limited available metrics to assess climate-related risks and opportunities. As we have determined that these risks and opportunities are not material in terms of strategy or risk management in the short to medium term, we do not currently engage with these metrics on a frequent basis, typically only annually. We have begun to explore data that would afford us more opportunities to review metrics related to our loans under management, for example by sector classification code and our recent measurement of financed emissions. However, this provides only limited information and requires further work for us to improve data quality and to derive more decision-useful information. It is too early for us to draw any meaningful conclusions from this data, but we believe it will help to inform our understanding of climate-related risks and opportunities as data availability and quality improve. We do expect to continue to develop further metrics to monitor climate-related risks and opportunities in respect of our loans under management; however, we believe this will be part of a longer-term process. In respect of our general business operations, we anticipate developing metrics and targets in respect of our operational emissions and reduction plans during the course of 2024 (a year later than originally planned). Our climate-risk roadmap has steps to address the identification of metrics and setting of targets over the next one to two years with a goal to be consistent with the TCFD recommendations.		**Partial (1/4)**

Metrics and targets	Disclosure	Cross reference	Disclosure level
(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks	Our 2023 Scope 1, 2, and 3 GHG emissions are disclosed on pages 28 to 30. This is the first year we are publishing our full Scope 3 emissions, including our Scope 3 financed emissions. We have provided our Scope 3 financed emissions data in an effort to be transparent and participate in a positive conversation about how the industry and wider stakeholders begin to address this challenging area. Please see Scope 3 –Financed Emissions (GHG Category 15) on page 30 above for more information.	See "Environment and Climate" on page 27 for our emissions information	**Full disclosure**
(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	We have not yet set specific targets related to climate-related risks and opportunities, and more work is required to set metrics and targets in connection with our transition plan and our net zero ambition, in particular for financed emissions where we are at a very early stage. In 2023, we achieved our goal of completing our first full Scope 3 measurement and made more progress in our understanding of our financed emissions. We are developing a climate risk heat map as explained more on page 34 above, and beginning to explore the impacts of climate risk on the credit risk of our borrower population. Funding Circle's ESG framework sets out the following short, medium and long-term goals related to managing certain climate-related risks and opportunities: › ambition of net zero by 2050 in line with the UK government's commitment, while setting a stretch target to reach net zero by 2030 for our operational emissions (Scope 1,2 and 3 excluding financed emissions); › develop metrics and targets as applicable for reporting by 31 December 2024 in line with our TCFD risk roadmap; and › consider a commitment to set science-based targets, in line with the SBTi's guidance for financial institutions.	See "Environment and Climate" and "Net zero" on page 27 for more information about our emissions and progress toward net zero	**Partial (1/4)**

Task Force on Climate-related Financial Disclosures (“TCFD”) continued

Risk & control self-assessment

Funding Circle strategic risk appetite statement

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

ESG risk assessment

Principal risk	Principal risk owner	Level 1 and 2 risk	Definition	Level 2 risk owner
Strategy	Chief Executive Officer, Lisa Jacobs	ESG — climate-related risk	Based on TCFD categories this risk covers (1) Transition Risks and (2) Physical Risks. Climate risk is a cross-cutting risk type that may manifest through some of our other established principal categories (regulatory, credit, operational and funding).	Global Head of Legal and Regulatory

Risk ratings as of Q4 2023

Level 1 and 2 risk: ESG - Climate-related risk						
Inherent likelihood	Inherent impact	Inherent risk rating	Residual likelihood	Residual impact	Residual risk rating	Control environment assessment
2 Possible	1 Minor	1 Low	2 Possible	1 Minor	1 Low	Satisfactory

Inherent risk rating rationale	
Likelihood	Possible: meaning potential occurrence once every one to two years — climate risk reporting is largely annual so not high frequency but possible for new standards or compliance risks on annual basis; physical risks deemed very low likelihood over the next 12 months.
Impact	Minor: based on potential financial impacts of £0—£250,000 in a 12-month period or the regulatory, legal, reputational or operational risks noted above. Primary impact risk driver over next 12 months is likely the required regulatory obligations and associated reputational risks, and the cost of compliance and producing disclosure. The Minor rating is driven by the financial cost to comply with evolving climate disclosure and risk management practices.
Control environment rationale	Satisfactory: Main controls being internal legal and regulatory review; management and risk oversight and controls (ARC and ESGC, and RepCon/ORC/CRMC/MRC); third party review and internal audit review; internal policies and practices; and internal compliance monitoring and testing.

Residual risk rating rationale	
Likelihood	Possible: meaning potential occurrence once every one to two years— controls in place reduce the risk to minimal level, however, given climate reporting is an annual event and the evolving/changing nature of the standards it is hard to reduce the level of frequency below that level.
Impact	Minor: based on potential financial impacts of £0—£250,000 in a 12-month period or the regulatory, legal, reputational or operational risks noted above. Transition risks are currently low frequency and low cost to mitigate, control reduces impacts to low risk. Physical risks viewed as very unlikely, and cost impact is hard to predict but over 12 months is not deemed to be more than minor.

Other commitments and policy statements

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

	Description	Subject matter
Voluntary Commitments		
UN Global Compact	Voluntary initiative to implement universal sustainability principles and take steps to support UN goals.	HR E ENV S ABC
Principles for Responsible Investment	PRI works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.	HR S
SME Finance Charter (UK)	Five pledges from UK banks and finance providers to support their SME customers.	HR S
Borrower Bill of Rights (US)	Identifies six fundamental financing rights, in most cases not yet protected by law, and encourages the entire small business financing industry to join in upholding these rights.	HR S
HM Treasury Women in Finance Charter	A pledge for gender balance across financial services with commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry.	HR E S
The Investing in Women Code	A commitment by financial services firms to improve female entrepreneurs' access to tools, resources and finance.	HR E S
UK gender pay gap reporting (UK)	Gender pay gap is the difference between the average pay of men and women in an organisation. Any employer in the UK with 250 or more employees on a specific date each year must report its gender pay gap data.	HR E S
Policy Statements (these can be found on the Company's Sustainability webpage**)**		
Global Anti-bribery and Corruption	Defines both bribery and corruption and outlines the management of associated risks at Funding Circle.	ABC
Information Security Statement	Describes our approach to cybersecurity.	HR S
Complaint Policy (UK)	Describes our approach to customer complaints and grievance processes.	E ABC S
Global Whistleblowing	Describes our whistleblowing policies and our commitment to openness and accountability.	HR ABC
Code of Conduct	Outlines the standards of behaviour, ethics and integrity expected among our workforce, and the culture in which adherence to these standards is recognised and rewarded.	E ABC
Modern Slavery Statement (UK)	Describes the steps our organisation has taken during the financial year to deal with modern slavery risks in our supply chains and our own business.	HR ABC
Data Protection	Describes our approach to data protection and privacy.	HR
External Supplier Assurance Standard	Describes our approach to procurement, supplier due diligence, information security and ethics.	HR ENV S ABC
Supplier Code of Conduct	Sets the minimum expectations and standards for all suppliers in relation to workforce standards, human rights, diversity, equity and inclusion, integrity and ethics, tax strategy, and the environment.	HR E ENV S ABC
People Policies	Describes our employment practices and policies, and approach to DEI.	HR E S ABC

HR Human Rights
E Employee
ENV Environment
S Social
ABC Anti-Bribery & Corruption

We actively engage with all our stakeholders

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

In 2023, we engaged with our stakeholders in a variety of ways to ensure they continued to feel connected and supported at all times.

Borrowers

Backing SMEs to succeed with access to fast, hassle-free finance is at the core of our customer proposition.

How we engage

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

Outcomes of engagement

- We achieved a Group NPS of 79
- We launched FlexiPay card to help SMEs manage their cash flow
- Our UK business was recognised as Unsecured Funder of the Year at the NACFB Commercial Broker Awards and Lender of the Year at the AltFi Awards, and our US business was recognised as Fintech of the Year at the US Fintech Awards

Institutional investors

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

How we engage

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

Outcomes of engagement

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

Section 172(1) statement
The Directors recognise that they have a duty to promote the success of the Company in accordance with s.172(1) of the Companies Act 2006. Further details on how the Board operates and the way in which it reaches decisions, including the matters discussed and debated during the year, are set out in the Governance section on pages 70 to 79. Some examples of how the Directors have had regard to the factors set out in section 172(1)(a)–(f) when discharging their duties are on pages 72 and 73.

Shareholders

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

How we engage

- Regular shareholder communications such as full and half-year results, and ad-hoc regulatory news service announcements
- Analyst and investor meetings and presentations/ roadshows, as well as ad-hoc meetings and events with shareholders and prospective shareholders
- The 2023 AGM was once again open to shareholders, offering an in-person opportunity for shareholders to interact with the Board
- The Chair, Chief Executive Officer, Chief Financial Officer and Director of Finance regularly communicate with shareholders and analysts as required and provide regular reports to the Board on shareholder interactions

Outcomes of engagement

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

Circlers

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

How we engage

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

Outcomes of engagement

- Continued to embed our new value, "Obsess over the customer", through a series of borrower visits, with Circlers from across the business gaining the opportunity to visit a Funding Circle borrower to learn about their business
- Delivered a global allyship training programme, to further strengthen our education on diversity, equity and inclusion
- Supported Circler resource groups in delivering over 100 initiatives and events globally

Engaging our stakeholders continued

Communities

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

How we engage

- Continual development and implementation of our ESG strategy. This process includes shaping our understanding of, and priorities for, engagement with our various stakeholders
- Regular meetings with institutional investors, including focused discussions regarding their ESG investment criteria as they apply to our loans and loan-backed investment products
- Sustained approach to company partnerships to drive social and sustainability outcomes for SME customers and communities, including through employee engagement
- Circler group FC Impact co-ordinates our employee-led volunteering and charity initiatives in the UK and the US

Outcomes of engagement

- Progressed and evolved our ESG strategy, which sets out a formal framework for operating as a responsible business and is overseen by our ESG Committee
- Progressed the implementation of our climate strategy, with support from climate and industry experts. We achieved carbon neutrality PAS 2060 recertification for our 2022 operational emissions, and have started the process for setting science-based targets, with the aim to develop an annual transition plan to map our ambition to net zero by 2050
- Partnered with Thrive Mental Wellbeing, a mental wellbeing app trusted by the NHS, to help all UK small business leaders and employees get more support with their mental health
- Continued to support charities delivering social and environmental value, such as Earthwatch's Tiny Forest movement, and Hatch Enterprise, which empowers underrepresented entrepreneurs to launch and grow their businesses, also with Funding Circle volunteers providing mentoring
- Raised £18,293 for charity in the UK and $5,112 in the US during 2023 and Circlers contributed 225 volunteering Impact Days in support of a range of good causes, including our charity of the year, The Trussell Trust

Government and regulators

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

How we engage

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

Outcomes of engagement

- In the UK: continued to work with the British Business Bank as we started participating in the third iteration of the UK government's Recovery Loan Scheme; engaged with industry groups on issues such as levelling the playing field for fintech lenders and reviving the UK small and mid-cap market; and responded to the Treasury Committee's enquiry into the accessibility of finance and lending to SMEs, including giving oral evidence
- In the US: continued to service Paycheck Protection Program loans. Tentatively granted a Small Business Lending Company "SBLC" licence by the Small Business Administration "SBA" to originate 7(a) loans nationwide up to $5 million, subject to SBA approval of our supporting documentation

A solid year responding well to evolving conditions

Oliver White
Chief Financial Officer

Overview of the year ended 31 December 2023

The performance in 2023 was in line with our expectations, with total income growth in each business unit compared to 2022 and controlled investment in US Loans and FlexiPay.

The UK Loans business originations were in line with 2022, with growth in commercial lending despite slower economic recovery than initially expected. UK Loans showed AEBITDA growth to £21.3m (2022: £13.8m) and profit before tax of £6.5m (2022: loss of £1.8m).

The US Loans business showed originations and LuM growth on 2022 with originations at £396m (2022: £327m) and LuM at £420m (2022: £375m).

Our line of credit product, FlexiPay, has demonstrated significant growth to date and we are investing to support the momentum we see in this product. Its transaction levels continue to grow (more than quadrupled in 2023 compared to 2022) following continuing strong customer engagement and the launch of FlexiPay card in September 2023.

Segmental highlights

	31 December 2023					31 December 2022				
	Loans			FlexiPay	Total	Loans			FlexiPay	Total
	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
KPIs										
Originations:										
Loans originations	**1,060**	**396**	**—**	**—**	**1,456**	1,095	327	—	—	1,422
FlexiPay transactions	**—**	**—**	**—**	**234**	**234**	—	—	—	59	59
LuM:										
Loans under management	**2,853**	**420**	**11**	**—**	**3,284**	3,311	375	39	-	3,725
FlexiPay balances	**—**	**—**	**—**	**56**	**56**	—	—	—	18	18

Financial review continued

Segmental highlights continued

	31 December 2023					31 December 2022[1]				
	Loans			FlexiPay	Total	Loans			FlexiPay	Total
	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
Operating income[1]	117.8	28.7	0.4	7.9	154.8	109.0	21.6	1.6	1.5	133.7
Net investment income	3.6	3.8	—	—	7.4	9.8	7.5	—	—	17.3
Total income	121.4	32.5	0.4	7.9	162.2	**118.8**	**29.1**	**1.6**	**1.5**	**151.0**
Fair value gains/(losses)	3.1	5.6	—	—	8.7	(2.4)	7.2	—	—	4.8
Cost of funds	—	—	—	(2.7)	(2.7)	—	—	—	—	—
Net income	124.5	38.1	0.4	5.2	168.2	**116.4**	**36.3**	**1.6**	**1.5**	**155.8**
Adjusted EBITDA[1]	21.3	(10.6)	(0.2)	(14.4)	(3.9)	**13.8**	**(3.1)**	**2.8**	**(4.0)**	**9.5**
Discount unwind on lease liabilities[1]	(0.2)	(0.4)	—	—	(0.6)	(0.2)	(0.7)	—	—	(0.9)
Depreciation, amortisation and impairment	(11.3)	(10.3)	—	(1.3)	(22.9)	(11.7)	(5.2)	(0.1)	—	(17.0)
Share-based payments and social security costs	(3.3)	(1.8)	—	(0.5)	(5.6)	(3.9)	(0.8)	—	—	(4.7)
Foreign exchange (losses)/gains	—	(0.2)	—	—	(0.2)	0.2	—	—	—	0.2
Profit/(loss) before tax	6.5	(23.3)	(0.2)	(16.2)	(33.2)	**(1.8)**	**(9.8)**	**2.7**	**(4.0)**	**(12.9)**
Operating AEBITDA[2]	14.6	(20.0)	(0.2)	(14.4)	(20.0)	**6.4**	**(17.8)**	**2.8**	**(4.0)**	**(12.6)**
Investment AEBITDA[2]	6.7	9.4	—	—	16.1	**7.4**	**14.7**	**—**	**—**	**22.1**

1. The comparative financial information has been re-presented with operating profit now removed and instead AEBITDA is reconciled to profit before tax. The three items below operating profit were finance income, finance costs and share of profit of associates. The finance income which represents interest income on cash and cash equivalents is now included within 'Operating income' and was £2.3m in 2022 and £8.7m in 2023. The share of profits of associates is included within other operating costs and is included within AEBITDA and was £0.4m in 2022 and £0.1m in 2023. Finance costs which represent the discount unwind on lease liabilities is included within other operating costs and is included below AEBITDA alongside the depreciation associated with our leased premises. Refer to note 1.
2. Investment AEBITDA is defined as investment income, investment expense and fair value adjustments, and operating AEBITDA represents AEBITDA excluding investment AEBITDA.

United Kingdom Loans business

Originations were £1,060m in 2023, compared to £1,095m in 2022, with growth in commercial lending and through our marketplace of third party lenders.

In H1 2022, the business was originating significant levels under the government's Recovery Loan Scheme and therefore we anticipated originations would reduce in H1 2023 compared to the previous year. Originations grew in H2 2023 compared to H1 2023. Originations continue to be funded through forward flow agreements with institutional investors. Funding was provided by a number of banks and asset managers during 2023 and we are well placed for funding in 2024 with forward flow agreements in excess of £1.5bn.

Bank of England base rate increases during 2023 have raised the cost of borrowing for SMEs, but targeted marketing, strong relationships with brokers and continued focus on customer experience have enabled us to grow commercial lending despite these headwinds.

LuM decreased in 2023 as growth in commercial lending was offset by continued repayment on the government loan schemes (CBILS and RLS). As at 31 December 2023, UK government-guaranteed loans represented £1,555m (31 December 2022: £2,325m).

UK Loans operating income grew to £117.8m in 2023, compared with £109.0m in 2022. Origination yield improvements and higher interest generated on corporate cash balances were partially offset by lower servicing fees (as a result of lower LuM).

Investment income of £3.6m decreased from £9.8m in 2022, in line with expectations and following the sale of previously securitised loans in H2 2022, as well as continued amortisation of remaining loans on balance sheet.

The UK AEBITDA grew to £21.3m in 2023 compared to £13.8m in 2022, with AEBITDA margin improvement as well as increased interest from corporate cash balances (with no additional costs and therefore resulting in AEBITDA increase). Investment AEBITDA was £6.7m in 2023, down slightly from £7.4m in 2022. Despite lower net investment income, we benefitted from favourable fair value movements, with overall stronger loan performance than we expected during 2023.

Profit before tax was £6.5m in 2023, up from negative £(1.8)m in 2022 due to the growth in AEBITDA.

United States Loans business

Originations grew to £396m in 2023, after a strong H1 23 and despite a tough economic backdrop. In April 2023, the SBA relaxed the requirements for loans <$500k under its SBA7(a) programme. This has encouraged more businesses to apply for SBA7(a) loans, which to date we have not provided and as a result we saw a drop in demand for our core loans.

At the same time, the SBA offered three new SBA7(a) licences and we applied for, and were granted subject to final approval of supporting documents, a licence to participate in the programme by the SBA. As with the UK Loans business, originations were funded through forward flow agreements with institutional investors and during 2023 we onboarded three new financial institutions to add to our existing investor base.

LuM grew to £420m as at 31 December 2023 (31 December 2022: £375m) with government-guaranteed PPP loans at £4m as at 31 December 2023 (31 December 2022: £28m).

Total income for US Loans was £32.5m in 2023, up from £29.1m in 2022 as origination and yield growth was partially offset by a reduction in investment income following the amortisation of SME loans held on balance sheet. There remained strong recoveries and lower than expected defaults driving a positive fair value. H1 2022 benefitted from £2.5m of PPP deferred income, this did not recur in 2023.

AEBITDA of negative £10.6m in 2023 was as expected as planned investments to scale the business continued.

FlexiPay

FlexiPay transactions have almost quadrupled in 2023 to £234m compared to £59m in 2022. Drawn lines of credit at 31 December 2023 grew to £56m, in line with transaction growth.

Total income for FlexiPay was £7.9m in 2023, increasing from £1.5m in 2022 as a result of transactions and fee growth. The fee charged on FlexiPay for each drawdown against lines of credit averaged 4.6% (2022: 3.0%) which is paid in three equal instalments along with the repayment of each drawdown balance. FlexiPay card was launched in September 2023 and is now issued to each new FlexiPay customer. When customers transact using the card, we also earn an interchange fee of 1.75% alongside existing FlexiPay drawdown fees.

The AEBITDA for the period was negative at £14.4m (2022: negative £4.0m) as investment continues to support product momentum. The principal costs incurred are staff-related costs, marketing costs and expected credit losses which are required to be recognised up front on the drawn and undrawn lines of credit.

Until June 2023, FlexiPay was solely funded through Funding Circle invested capital. From June 2023, FlexiPay has also been funded through a senior debt facility with Citibank with interest payable on this facility shown in “cost of funds”.

How we make money from our different products

Revenue stream	Loans: UK & US	FlexiPay:UK	Typical yield	Drivers
Origination fees	✓		c.6%	Loan originations **FY23: £1,456m**
Servicing fees	✓		c.1%	LuM **FY23: £3,284m**
Drawdown fees		✓	c.4.9%	FlexiPay Transactions **FY23: £234m**
Card interchange fees		✓	1.75%	Card transactions & values
Bank interest	✓	✓	Variable	Cash balances & base rates
Interest on SME loans	✓		Middle	Invested capital **FY23: £64m**

Financial review continued

Finance review

Overview

Group total income was £162.2m (2022: £151.0m), up 7%, and net income was £168.2m (2022: £155.8m).

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

The Group's loss before tax was £33.2m for the year (2022: loss of £12.9m). This includes £5.8m (2022: £1.8m) of impairment on the San Francisco leased offices following the exit of tenants and a write down on capitalised development following an annual impairment assessment on the US Loans cash generating unit.

Profit and loss

	31 December 2023 £m	31 December 2022[1] £m
Transaction fees	**88.7**	77.5
Servicing fees	**42.4**	47.9
Interest income	**16.7**	4.2
Other fees	**7.0**	4.1
Operating income	**154.8**	133.7
Investment income	**8.0**	22.0
Investment expense	**(0.6)**	(4.7)
Total income	**162.2**	151.0
Fair value gains	**8.7**	4.8
Cost of funds	**(2.7)**	—
Net income	**168.2**	155.8
People costs	**(94.4)**	(85.9)
Marketing costs	**(48.4)**	(38.4)
Depreciation, amortisation and impairment	**(22.9)**	(17.0)
(Charge)/credit for expected credit losses	**(4.4)**	1.5
Other costs	**(31.3)**	(28.9)
Operating expenses	**(201.4)**	(168.7)
Loss before tax	**(33.2)**	(12.9)

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

Operating income includes transaction fees, servicing fees, interest income from loans held at amortised cost, interest on cash balances and other fees and was £154.8m (2022: £133.7m).

- Transaction fees, representing fees earned on originations, increased to £88.7m (2022: £77.5m), driven by improved origination fee yields in each business segment. Loan originations were in line with 2022.
- Average origination fee yields grew in the UK Loans business to 6.2% (2022: 5.5%) and yields in the US Loans business grew to 5.9% (2022: 4.6%).
- Servicing fees, representing income for servicing Loans under Management, were £42.4m (2022: £47.9m), down on 2022. The fees move in line with the quantum of loans under management, which decreased in the UK Loans business as growth in UK LuM from commercial lending was offset by continued repayment on the government loan schemes. Servicing fees are not charged on FlexiPay lines of credit or on the PPP loans. Servicing yields remain similar to 2022 levels.
- Interest income represents FlexiPay income, interest earned on loans held at amortised cost and on cash and cash equivalents. FlexiPay interest income has increased to £7.8m (2022: £1.5m). This is where we charge a fee which is spread over three months, in line with borrower repayments. Interest earned on cash and cash equivalents has also increased to £8.7m (2022: £2.3m) which has increased in line with base rates.
- Other fees arose principally from collection fees we recovered on defaulted loans, some of which was accelerated through investors selling some of their non-performing loan portfolios.

Net investment income represents the investment income, less investment expense, on loans held on balance sheet at fair value and declined to £7.4m (2022: £17.3m) as expected. This was driven by the continued amortisation of the remaining loans and the buyout and wind up of the securitisation vehicles in the UK Loans business and US Loans business during 2022 and subsequent sale of certain loan portfolios in October 2022. The Group wound up the last remaining US securitisation vehicle (SBIZ-20A) in April 2023.

Net income, defined as total income after fair value adjustments and cost of funds, was £168.2m (2022: £155.8m). The fair value gain in the period related to the loans on balance sheet held at fair value reflected ongoing strong performance from the SME loans with lower defaults and higher recoveries than expected, in part offset by higher discount rates driven by UK and US base rates. As the on-balance sheet loans continue to amortise down, we would expect fair value gains/losses to continue to diminish.

Operating expenses

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

People costs (including contractors), represent the Group's largest ongoing operating cost. These increased during the period by 10% to £94.4m (2022: £85.9m), after the capitalisation of development spend. This was driven by wage inflation and headcount growth for the FlexiPay and US Loans teams, whilst headcount across UK Loans business has reduced by 7%. The average salary per head increased by 3.5% but below wage inflation.

The share-based payment charge for the period, included in people costs, was £5.6m (2022: £4.7m).

	31 December 2023 £m	31 December 2022 £m	Change %
People costs	**105.7**	98.4	7
Less capitalised development spend ("CDS")	**(11.3)**	(12.5)	(10)
People costs net of CDS	**94.4**	85.9	10
Average headcount (incl. contractors)	**1,074**	1,035	4
Year-end headcount (incl. contractors)	**1,101**	1,075	2

Marketing costs comprise above the line marketing channels (direct mail and online), brand spend and commission payments made to brokers. Marketing increased in the period to £48.4m (2022: £38.4m), and reached 31% of operating income (2022: 29%), driven by media spend investments in the FlexiPay and US businesses and higher broker commissions. Excluding FlexiPay, the Loans businesses invested 30% of operating income in marketing (2022: 28%) with lower conversion in the current economic environment impacting marketing efficiency.

Depreciation, amortisation and impairment costs of £22.9m (2022: £17.0m) largely represent the amortisation of the cost of the Group's capitalised technology development and the depreciation of right-of-use assets related to the Group's office leases. With a weakening commercial property market in San Francisco, the Group has impaired its sublet office space by £2.0m. This follows an impairment of the San Francisco office in 2022 of £1.8m. Additionally we impaired the capitalised development spend in the US Loans business following our annual impairment exercise as near term cash flows of the cash generating unit do not support the carrying amounts.

Following these impairments we would expect a reduction in these costs going forwards.

Expected credit losses principally relate to the IFRS9 charge for FlexiPay where we account for actual and expected credit losses from SMEs defaulting on their lines of credit. We would expect this charge to increase as FlexiPay grows. The probability of default is estimated utilising observed trends and combining these with forward-looking information including different macroeconomic scenarios which are probability weighted. The loss given default is driven by assumptions regarding the level of recoveries collected after defaults occur.

Other operating costs, which consist of loan processing costs, data and technology, professional fees and staff and office related costs, have grown as the Group continued to invest in growth in the US Loans and FlexiPay businesses. The increase is driven by inflation, higher volumes, loan processing costs and higher office costs, with lower subtenant contributions received in the US for its San Francisco office.

Financial review continued

Balance sheet and investments

The Group's net equity was £247m at 31 December 2023 (31 December 2022: £284m). This reduction reflects the Group's loss after tax, the purchase of own shares by the Employee Benefit Trust ("EBT") and foreign exchange losses on the retranslation of the investment in the US Loans business.

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

	Operating business		Investment business			31 December 2023	31 December 2022
	Loans business[1] £m	FlexiPay £m	Legacy securitisation, warehouse and other loans at fair value £m	CBILS/RLS/ Commercial co-investments £m	Private funds £m	Total £m	Total £m
SME loans and lines of credit	6.7	50.0	18.6	25.2	1.5	102.0	141.3
Cash and cash equivalents							
Unrestricted	169.0	0.6	—	—	—	169.6	165.6
Restricted	1.1	19.6	—	31.1	—	51.8	12.1
Other assets/ (liabilities)	—	2.7	—	—	—	2.7	0.9
Borrowings/bonds	(2.2)	(54.7)	—	—	—	(56.9)	(46.3)
Cash and net investments	174.6	18.2	18.6	56.3	1.5	269.2	273.6
Other assets	47.1	—	—	—	—	47.1	64.1
Other liabilities	(38.4)	—	—	(31.1)	—	(69.5)	(53.7)
Equity	183.3	18.2	18.6	25.2	1.5	246.8	284.0

1. Loans business includes £2.2m of PPP loans together with the associated Federal Reserve borrowings which we expect will both reduce as the remaining PPP loans are forgiven.

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

Investment in product/vehicles	31 December 2023 £m	31 December 2022 £m
1. Legacy securitisation, warehouse and other loans at fair value	19	46
2. CBILS/RLS/Commercial co-investments[2]	25	32
3. Private funds	2	3
Net invested	46	81
FlexiPay[2]	18	16
Total net invested capital	64	97

2. These vehicles are bankruptcy remote.

1. SME loans at fair value – this relates to the legacy loans previously held in SPVs and warehouses. During 2023, the Group called options to wind down the US securitisation (SBIZ-20A) and in 2022, the Group called options to wind down UK (SBOLT-19A) and US (SBIZ-19A) securitisations and bought out the remaining bondholders. These loans continue to amortise down.
2. CBILS/RLS/Commercial co-investments – as part of our participation in the CBILS and RLS UK government-guaranteed loan schemes, we were required to co-invest c.1% alongside institutional investors.
3. Private funds – there are a small amount of other loans, comprising seed investments in private funds held as associates. finalising a funding deal. The majority of these loans were sold in February 2023.

Cash flow

At 31 December 2023, the Group's cash position was £221.4m (31 December 2022: £177.7m). Of this balance £169.6m (31 December 2022: £165.6m) is unrestricted in its use with £51.8m (£12.1m) being restricted.

Restricted cash relates to cash held in the funding vehicle of FlexiPay together with amounts owed to the British Business Bank ("BBB") for guarantee fees collected from institutional investors under the participation of the CBILS and RLS schemes. Total cash movements have principally been driven by:

i) Trading performance

ii) Sale of temporary funding loans in the US Loans business

iii) Monetisation of on-balance sheet SME loans as they have continued to pay down offset by the wind down and buyout of the SBIZ-20A external bonds

iv) Leveraging the investment in FlexiPay lines of credit with external bank debt

v) Timing of working capital movements associated with UK government loan guarantee payments received from investors still to be paid to the British Business Bank

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

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

	2023 £m	2022 £m
Adjusted EBITDA	**(3.9)**	9.5
Fair value adjustments	**(8.7)**	(4.8)
Purchase of tangible and intangible assets	**(12.2)**	(13.9)
Payment of lease liabilities	**(6.0)**	(6.1)
Working capital/other	**25.9**	0.9
Free cash flow	**(4.9)**	(14.4)
Net distributions from associates	**1.2**	5.4
Net movement in trusts and co-investments	**4.8**	3.6
Net movement in lines of credit	**15.8**	(16.0)
Net movement in other SME loans	**15.8**	(22.4)
Net movement in warehouses and securitisation vehicles	**13.6**	—
Purchase of own shares	**(1.8)**	(8.7)
Other	**—**	2.4
Effect of foreign exchange	**(0.8)**	3.8
Movement in the year	**43.7**	(46.3)
Cash and cash equivalents at the beginning of the period	**177.7**	224.0
Cash and cash equivalents at the end of the year	**221.4**	177.7

Subsequent events

At the year end date, the Directors were considering the future direction of the US business. Whilst the US continues to offer attractive growth, it will require significant cash and capital under the SBA programme. Against this, we have determined that a simpler, more profitable UK business will deliver greater shareholder value with improved profitability and cash generation.

We have now reached a point, in March 2024, where we have announced our decision to focus on the UK opportunity and that we are in discussion with third parties regarding the US business. The financial impact of this is yet to be quantified.

In March 2024, the Group announced and commenced purchases under a discretionary programme to purchase ordinary shares of £0.001 each in its share capital, up to maximum consideration of £25 million, because the share price materially undervalues the business. Funding Circle intends to conduct the programme in accordance with and under the terms of and capacity available under the general authority granted by its shareholders at its Annual General Meeting held on 11 May 2023, subject to available distributable reserves.

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

Belkacem Krimi
Global Chief Risk Officer

One year ago, I described 2023 as a year of transition. At the time, inflationary trends exacerbated by the war in Ukraine had prompted an unprecedented response from central banks, with the potential to leave lasting economic scars. Fast forward to today, we can observe with some satisfaction that, in the face of daunting challenges, the economies of the US and the UK have demonstrated remarkable resilience, avoiding a recession thanks to robust consumer spending fueled by strong labour markets. While ongoing conflicts in the Middle East and the ongoing Ukraine war pose potential volatility for 2024, we closed 2023 with greater optimism than at its start, with the economy on a path towards a soft landing, supported by a cooling inflation rate and market expectations of rate cuts in the second half of 2024.

For small and medium-sized enterprises (SMEs) that have exhibited exceptional resilience during this period, a stabilising economy will foster renewed confidence and an appetite for investment to capitalise on the next expansion cycle. As inflation cools and central banks hint at future rate cuts, debt will become more affordable, leading to an expansion of credit markets driven by increased capital needs and refinancing opportunities.

Within this environment, Funding Circle delivered a strong credit performance in 2023, characterised by a robust repayment profile. This reflects the remarkable resilience and integrity of SME entrepreneurs, the credit quality of the loan portfolio and the effectiveness of our collections activities.

Since Funding Circle's inception, we have consistently sought to maximise the adaptability of our credit capabilities to enable us to swiftly implement changes in volatile environments. Our ability to rapidly establish and implement credit and underwriting strategies, our ongoing engagement with investors, and our assessment of the risk-reward balance of our loans relative to interest rate fluctuations all enable us to continuously support SMEs throughout the economic cycle while maintaining superior returns for investors. Throughout 2023, we maintained disciplined pricing for our loans and expanded our product offering to cater to businesses with varying credit risk profiles or seeking shorter repayment periods.

This demonstrates not only the granularity of our monitoring but also the ongoing effectiveness of our credit risk models and fraud prevention measures, even during periods of heightened volatility. Moreover, our change management and testing capabilities have proven their worth.

While the credit environment is likely to remain uncertain and volatile, there are signs that the headwinds of 2023 are easing, albeit with varying impacts across our two geographies. We are well-positioned to navigate this landscape. We will continue to adopt a focused and prudent approach to credit risk management. We remain confident that our products and processes are resilient and adequate to continuously support SMEs throughout 2024, contributing to the economy's recovery.

In addition to managing credit risk, we made further progress in strengthening our broader risk management and control environment in 2023, including:

- Our government-guaranteed origination programme performed well within expectations, and we maintained an excellent compliance track record.
- We further developed data-driven strategies for credit risk and operational capabilities for FlexiPay.
- We enhanced our defences against cyber-risk and data security.
- We strengthened our financial crime controls and ensured continued compliance with anti-money laundering and sanctions regulations.
- We made significant progress in our ESG strategy by identifying, evaluating, and monitoring ESG risks within our Enterprise Risk Management Framework.

Overall, we are proud of the positive contributions we made in 2023 to safeguard our employees, borrowers, and investors, while simultaneously supporting society and the economy. We are confident that we possess the necessary tools and determination to successfully navigate the volatile environment ahead.

Risk management overview:

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

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

Our approach to risk management consists of:

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

As part of the second line of defence, the Risk team oversees risk management across the Company, in conjunction with the Legal and Compliance teams. We also support our first line of defence employees in their risk management activities.

Risk culture

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

Board role

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

Chief Risk Officer and the Risk function

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

Risk management policies

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

Risk appetite

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

Risk governance

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

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

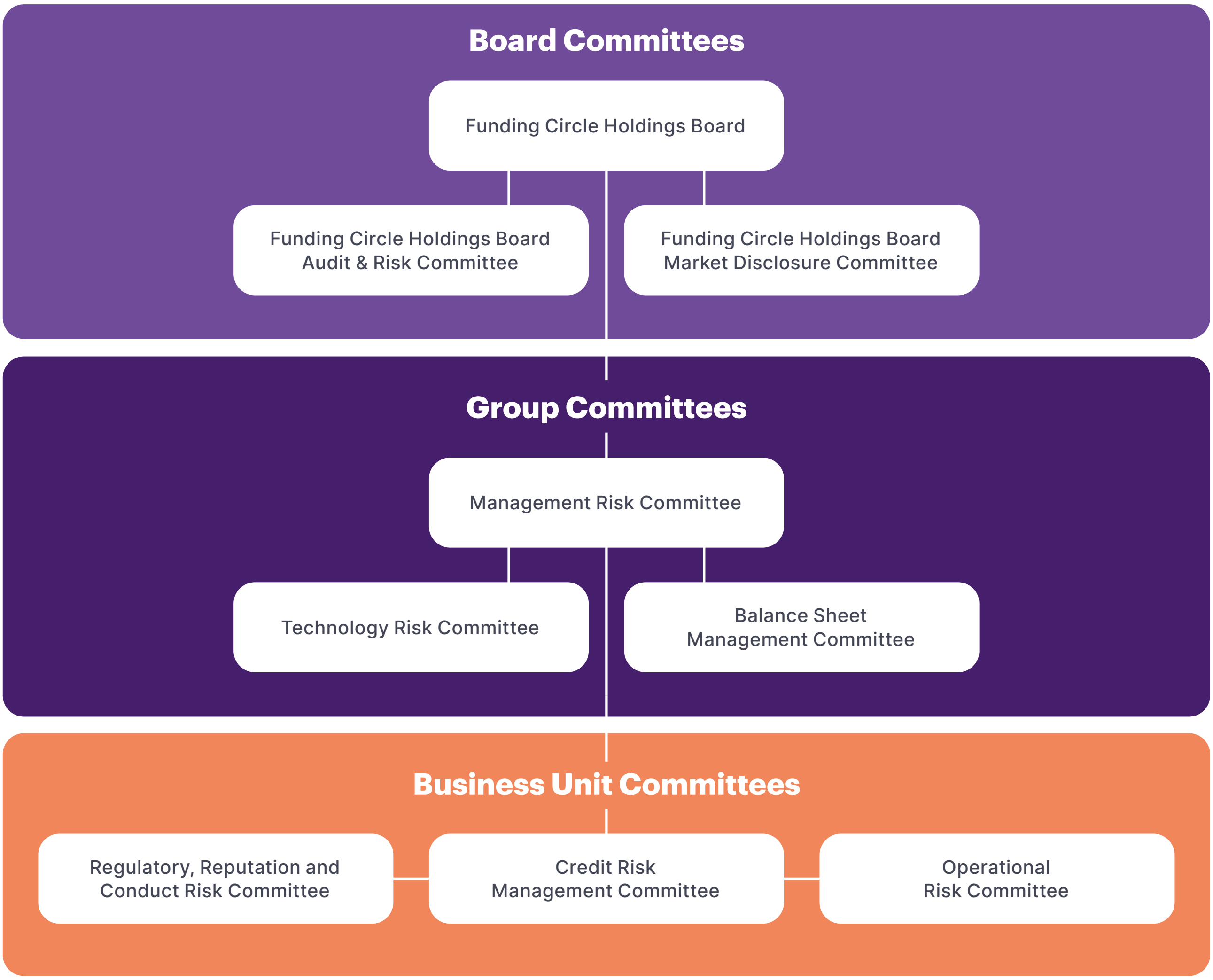
The Board Audit & Risk Committee ("ARC") is supported by the Executive Risk Committee ("ERC"), comprising the members of the Global Leadership Team. The ERC has sub-committees focused on each principal risk, as set out below.

Management Risk Committee

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

Risk management continued

Risk governance structure



Balance Sheet Management Committee

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

Credit Risk Management Committee

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

Regulatory, Reputation and Conduct Risk Committee

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

Operational Risk Committee

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

Technology Risk Committee

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

Risk assessment framework

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

We typically follow the evaluate/respond/monitor methodology:

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

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

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

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

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

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

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

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

Principal risks and uncertainties

The Board confirms that throughout 2023 a robust assessment of the principal risks facing Funding Circle was completed. A comprehensive list of Group-wide risks and emerging risks was reviewed and monitored throughout the year. The most significant risks and uncertainties faced by Funding Circle are listed in the table below, categorised by principal risk:

Strategic risk

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

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

Key risks	Management of risk	Change in risk in year
Strategic risk		
The risk that Funding Circle does not achieve its key business objectives and maintain its competitive advantage and business operations.	The GLT manages the strategic planning process based on risk appetite, financial considerations, strategic themes and economic assumptions. We manage strategic risk by: › performing an in-depth business strategy review at least once a year; › reviewing financials, strategic plans for new products/initiatives, and other management information; › reviewing the strategic risk implications of new products, business expansion, and other Company initiatives; and › the Board providing oversight of strategic risk and approving strategic business plans at least annually.	→ After rapidly rising through 2023 (which Funding Circle has been able to adapt to), market expectations are that interest rates have now peaked which should ease credit conditions. However, the impact of the rapid rise in interest rates and broader macroeconomic climate on SMEs remains uncertain. This leads to uncertainties around borrower and investor demand which may impact our strategic objectives. Funding Circle has also continued to grow new products such as FlexiPay for which performance and demand may be uncertain until they reach scale. We are monitoring these trends carefully and is continuously adjusting product offerings to fit market conditions and meet evolving demand. In the UK we are part of the new iteration of the government Recovery Loan Scheme. The Scheme is an important offering which will enable us to say yes to more businesses in line with our medium-term plan. Sustaining momentum in government sponsored lending continued to be a strategic priority.

Strategic risk continued

Key risks	Management of risk	Change in risk in year
Economic environment		
Financial risk that is associated with macroeconomic or political factors that may affect Funding Circle's financial and/or credit performance.	We continually monitor the health of our loan portfolios and perform stress test simulations to help ensure that loan returns remain resilient in the context of risk volatility. Key mitigating actions include (but are not limited to): › annual stress testing of loan portfolios in each market; › resilient credit strategy and continuous tuning of risk and pricing parameters to correct for possible deviations in returns; › independent validation and continuous monitoring of the performance of credit risk models; › monthly monitoring of internal and external signals as part of the Credit Risk Management Committee meetings; › agile capability to rapidly deploy pricing and credit strategy adjustments deemed necessary; and › experienced in-house collections and recoveries capabilities with built-in scalability.	↗ Following a brief post-pandemic recovery, we faced an inflationary surge that surprised central banks, prompting them to raise rates rapidly. While we appear to be transitioning towards normalisation, the economic environment risk has increased.
Environmental, social and governance risk		

Environment, social and/or governance events or circumstances could cause an actual or potential material negative impact on Funding Circle's financial performance or reputation.	› Our ESG framework outlines our approach to ESG and is approved by the Board.
	› The Board retains ultimate responsibility for providing the strategic focus, support and oversight for the implementation of the Group's ESG strategy, including for climate-related risks and opportunities. The Board delegates certain matters related to climate-related risks and opportunities to two Committees:
	  › the ESG Committee is responsible for oversight of the Group's overall ESG strategy, including climate-related opportunities and voluntary commitments; and
	  › the Audit and Risk Committee is responsible for oversight of risk management related to ESG risks, including climate-related risks.
		→
		We continue to integrate ESG risks into our ERMF and mature our ESG framework.
		We continue to assess our ESG risks and opportunities and further embed them into day-to-day practices and first-line teams.
		For further information please see ESG section.

Principal risks and uncertainties continued

Funding and balance sheet risk

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

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

Key risks	Management of risk	Change in risk in year
Funding risk		
The risk that demand from borrowers for loans cannot be fulfilled or can only be met at an uneconomic price. This risk varies with the economic attractiveness of Funding Circle loans as an investment, the level of diversification of funding sources, and the level of resilience of these funding sources through economic cycles.	Funding Circle's business model is to be a lending platform that efficiently matches the supply of capital to the demand of SME borrowers. We carefully manage this matching by: › building long-term relationships with investors and developing a forward-looking pipeline of new investors; › actively managing concentration risk and diversifying sources of funding; › managing Funding Circle's lending activities whether through direct lending capacity, securitisation capacity or investment fund lending vehicles; › monitoring a broad range of management information and key performance indicators at the Balance Sheet Management Committee, Credit Risk Committee, Operational Risk Committee and Board levels; and › leveraging an experienced capital markets team for sales and transaction structuring.	↗ Globally, despite an uncertain environment, we experienced demand from institutional investors to fund new loans. This demonstrates the trust our funding partners place in the soundness of our risk management, and the experience they had with previous investments that delivered positive returns despite the Covid-19 crisis. We also increased rates to match market movements, and maintain loan returns. We have onboarded new investors, continuing the trend from the previous years, with new asset managers, and we have strong institutional relationships providing a good basis for our future funding needs. While increased US regulatory scrutiny of bank-fintech partnerships creates challenges for some investors, it also brings to light potential concentration risk related to investor funding.
Balance sheet risk		
The risk that Funding Circle investment positions reduce in value or cannot be exited at an economically viable price. **The risk that Funding Circle liabilities cannot be met when and where they fall due or can only be met at an uneconomic price.**	We carefully manage this risk by: › setting clear guardrails for Funding Circle balance sheet exposures and following a set of agreed investment principles to guide capital allocation; › maintaining a prudent level of liquidity to cover unexpected outflows to ensure that we are able to meet financial commitments for an extended period, including under stress scenarios; › considering a broad range of management information and key performance indicators at senior management level; and › leveraging a dedicated and experienced Balance Sheet Management team.	→ Our overall approach to having a robust balance sheet and prudent management of liquidity remains unchanged. We have continued to simplify our balance sheet in the year, unwinding the last of our consolidated securitisation vehicles. Legacy SME loans on our balance sheet continue to perform strongly as they amortise down. FlexiPay was funded solely from our own cash in 2022, and in June 2023 we levered our investment with senior financing from Citigroup. The lines of credit remain on our balance sheet and at 31 December we held 6,573 drawn lines of credit (£107m worth of limits of which £56m is outstanding balances) with a further 6,586 undrawn (£109m worth of limits). We have sufficient disposable cash to cover our liquidity needs, including when tested against stressed liquidity scenarios, and to fund our medium-term plan going forwards.

Credit risk

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

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

Key risks	Management of risk	Change in risk in year
Credit risk		
Borrower acquisition **Credit performance and returns of new loans can deviate from expectations due to several factors: changes in credit quality of incoming applications, calibration of risk models or strategy parameters, and control gaps in processing loan applications.** **Portfolio risk management** **Credit performance and returns of existing portfolio can deviate from expectations due to several factors: deterioration of credit environment, increased competition driving higher prepayment rates, effectiveness of portfolio monitoring, collections and recoveries.**	Funding Circle's aim is for well-balanced loan portfolios that generate positive returns for investors through the economic cycle. We are actively managing credit risk by: › formulating credit risk policies (covering credit assessment and risk grading, portfolio monitoring and reporting, collections and recoveries) and ensuring adherence to these policies; › recruiting, training and managing expert risk professionals with the adequate skills, objectives and capacity; › establishing the formal mandates and authorisation structure for setting risk parameters and approving loans; › performing independent quality control of credit decisions; › limiting concentration risk to counterparties and industries; › actively monitoring the performance of the loan portfolios and the market trends that could affect performance; › implementing adequate procedures and controls for model risk (including the independent validation and monitoring of credit scoring models); › performing annual stress tests with high-quality standards; › with regards to government programmes, tightly controlling adherence to eligibility criteria. › having adequately staffed and well trained Collections and Recoveries department; › ensuring forbearance tools and policies are fully integrated in customer life cycle management; › constantly monitoring our portfolio for credit insights that feed into the underwriting policies/models and decisioning infrastructure; and › regular pricing reviews to ensure adequate risk-adjusted returns for our investors in a higher interest rate environment.	↗ Whilst our portfolios in the US and UK are showing resilience and generally performing well, we do take the economic environment as a significant challenge to our borrowers. We are adopting a more prudent approach to credit risk and more intense monitoring of our existing lending volumes. Funding Circle is entering 2024 in a strong position from a credit risk standpoint, capitalising on our data and experience since our inception.

Principal risks and uncertainties continued

Regulatory, reputation and conduct risk

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

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

Key risks	Management of risk	Change in risk in year
Regulatory risk		
The risk that Funding Circle's ability to effectively manage its regulatory relationships is compromised or diminished, that the Group's governance and controls framework is not satisfactory given business growth, or that there is business interruption by reason of non-compliance with regulation or the introduction of business-impacting regulation.	› We maintain vigilance around policy shifts, and proactively engage with policy-makers, highlighting our platforms' features, benefits, and impact; › We continue to implement and maintain business practices and controls focused on regulatory risk. These include controls designed to comply with the Senior Managers and Certification Regime in the UK and government lending programmes in the US; › We continue to focus on governance and controls and train all employees in such matters relevant to their role; and › For ESG-related risks, including DEI, social impact and climate change, we continue to work with service providers to assist with integration of TCFD recommendations and our net zero ambitions.	→ Regulatory focus on consumer cash held by firms sharpens in light of rising rates. The Retail Investor product's trajectory remains downward from a risk perspective, impacted by balance reductions and debt sales. Low residual performing balances are anticipated by year-end 2024. The Consumer Duty came into force for open products on 31 July 2023 with greater focus on consumer outcomes and firms expected to deliver good outcomes for retail customers in the UK. Having reviewed the requirements we did not see the standards impacting our already customer-centric approach. Increased regulation looms for ESG risks, including mandatory disclosures and labelling. We continue to proactively monitor this area, and comply with all current obligations.
Reputation risk		
Operational or performance failures could lead to negative publicity that could adversely affect our brand, business, results, operations, financial condition or prospects.	We continue to implement and maintain business practices and controls focused on reputation management, including: › ensuring risk and compliance considerations for new or iterated products and initiatives; › engaging fully with regulators when required, and external advisers in relation to any new or iterated products and initiatives that might impact on customer outcomes; › undertaking specific projects to address identified risk topics and issues, including retrospective reviews, internal audit reviews and monitoring and testing programmes; and › updating and refining our approach to issue and risk identification and management.	→ Our newest product, FlexiPay, while successful, presents potential challenges as it scales, including increased operational complexity and potential reputational risks. These factors are closely monitored to ensure smooth operations and optimal product performance.

Regulatory, reputation and conduct risk continued

Key risks	Management of risk	Change in risk in year
Conduct risk/treating customers fairly		
Funding Circle's activities (or the failure to satisfactorily perform its activities) could impact the delivery of fair customer outcomes.	› Complying with applicable laws and regulations, and ensuring positive customer outcomes, continue to be fundamental priorities for Funding Circle. › Conduct rules and Consumer Duty training has been developed and rolled out across the UK business. › Compliance Monitoring and Testing and Internal Audit functions continue to test to provide assurance that our activities and processes are designed to deliver fair customer outcomes. › We have a dedicated Business Support Team incorporating our Complaints Handling Team and a specific team focused on vulnerable customers.	→ Despite the challenges of oversight and monitoring of employees and controls in a hybrid environment, we do not consider this risk to have increased.

Operational risk

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

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

Key risks	Management of risk	Change in risk in year
Process risk		
Failure to originate and service loans in line with Funding Circle internal policies, investor guidelines and third party loan guarantees (e.g. the British Business Bank) may result in Funding Circle repurchasing loans from investors. **The risk of operational incident could impact the ability to originate new loans or the ability to service loans through collections from borrowers and return of money to investors.**	We actively manage process risk by: › continuing to automate key controls; › performing robust first-line quality assurance and secondary checks on manual processes; › monitoring and testing of key controls; › reviewing key risk indicators as part of the Business Unit Operational Risk Committee; › reporting, reviewing and resolving operational errors; › performing independent quality control checks and ensuring highlighted issues are resolved; › implementing adequate policies and procedures; › providing training and education on risk culture and risk management; and › performing supplier due diligence and undertaking ongoing performance monitoring of key suppliers.	→ Building upon the effectiveness of our established first-line of defence controls, we sustained a stable process risk profile over the past year. In addition, we carry out independent quality checks to ensure that all loans originated (unsecured and government schemes) are compliant with loan eligibility requirements. The forecasted growth in Funding Circle's FlexiPay product potentially increases operational and third party reliance risk. We also perform external assurance over our internal controls with satisfactory reports for FY 2023: › United Kingdom — We (alongside our auditors PWC) undertake the International Standard on Assurance Engagements (ISAE 3402) Control Report to provide assurance; with no exceptions to note. › United States — Alongside our auditors Grant Thorton, Funding Circle USA ("FCUS") tests its controls in accordance with the Service Organisations Control Assurance (SOC 1 Type 2) Report.with no exceptions to note.

Principal risks and uncertainties continued

Operational risk continued

Key risks	Management of risk	Change in risk in year
Financial crime		
Risk of regulatory breach, financial loss or reputational damage arising from a failure to adequately manage or prevent money laundering, terrorist financing, bribery and corruption, or to comply with sanctions regulations.	› Complying with the laws and regulations designed to counter money laundering, terrorist financing, corruption and bribery is fundamental to Funding Circle's operations. › The Board has adopted policies to address financial crimes that have been implemented by Business Units through formal standards and procedures. › We have a dedicated Financial Crime Operations team within the first line of defence that is advised, challenged and monitored by the second-line Financial Crime Compliance team.	→ In the UK, the growth of the FlexiPay product may add complexity and risks related to money laundering and fraud as the product scales. We continue to undertake rigorous fraud, anti-money laundering and Know Your Customer checks as part of our processes; however, further improvement and iteration will be required as the product matures.
Client money risk		
Failure of Funding Circle to adequately protect and segregate client money may lead to financial loss, reputational damage and regulatory censure.	Funding Circle holds funds for retail and institutional investors in segregated client money bank accounts in line with the Financial Conduct Authority's CASS regulations. We continue to manage the risk through: › a monthly CASS governance sub-committee attended by the CFO, (the Senior Manager responsible for CASS Compliance) focused on providing oversight and challenge regarding the effectiveness of client money controls, making decisions in relation to client money and reviewing management information and regulatory returns, as well as reviewing risks and mitigating controls when introducing new product cash flows into client money framework; › oversight from the Funding Circle Ltd Board including an Annual Report and quarterly management information, prepared for and approved by the Senior Manager with responsibility for the firm's compliance with CASS. The FCH Board also reviews client money arrangements and highlights key risks and steps to mitigate; › specific compliance monitoring activity; › periodic internal audit reviews covering governance and control over client assets; and › annual CASS external audit providing an opinion on compliance with the CASS rules.	→ In 2023, we have maintained a robust control environment in relation to payment creation, payment authorisation, reconciliation review and monthly reporting. Controls implemented in the prior year for the late payment money flow are embedded in the control environment, and we continue with best practices in relation to the holding and treatment of client money and perform reconciliations daily. The FCA's increased focus on client assets continued during 2023 and the considerations given to the published "Dear CEO" letter in 2020, addressing the increased client money balances, continued to be monitored by the UK Board. Proactive contact continued to be made with our retail investors to create awareness of funds available to withdraw, and we saw the balance held continue to reduce throughout 2023.

Technology risk

Technology Risk refers to the potential negative consequences that can arise from the use or implementation of technology, including hardware, software, and data management systems. Technology risks can arise from a variety of sources, including hardware failures, software bugs, cyber attacks, data breaches, and user errors. In response to evolving threats and the rise of Generative Artificial Intelligence (Gen AI), Technology risk has been designated a "Principle Risk" for 2024, ensuring stringent oversight and proactive mitigation.

Risk appetite Funding Circle will manage its Technology, Data, and Security risks with effective controls, preventing significant and non-anticipated loss of confidentiality, integrity and availability of systems and data.

Key risks	Management of risk	Change in risk in year
Technology risk		
Failure of the technology platform could have a material adverse impact on Funding Circle's business, results of operations, financial condition or prospects.	› Technology has always been at the heart of Funding Circle. With the rise of Gen AI and the evolving nature of threats, the Risk Committee took the decision to upgrade Technology Risk as a standalone Principal Risk to enhance its oversight in 2024 and beyond. › We continue to make significant investments in our technology platform to ensure it is resilient and scalable to support business growth.	↘ Technology risk and technical resilience continue to improve with more robust testing capabilities in place to support changes before production implementation Nevertheless, we remain committed to exploring additional opportunities to further strengthen our approach. We have also improved our technology automation, alerting and incident response capability to maintain a stable platform to enable business growth, scalable products and services.
Information security		
Failure to protect the confidential information of Funding Circle's borrowers, investors and IT systems may lead to financial loss, reputational damage and regulatory censure.	› Information security is a priority for Funding Circle as a technology-driven company. As such we maintain in-depth defence with a multi-layered control infrastructure. › Information security has a direct line of sight to the Board via the Technology Risk Committee, Operational Risk Committee and Executive Risk Committee which feed into the Board Audit and Risk Committee.	↘ In 2023, we continued to see improvements in our information security infrastructure with a strong focus by the FCH Board. We have increased our overall security maturity and continue to adapt our information security controls as the threat landscape continues to evolve.
Data risk		
Failure in our ability to acquire, use, secure and transform our data assets could result in adverse material impacts across Funding Circle.	› Our data risk management framework is aligned to the Funding Circle ERMF. › Data risks are appropriately managed, based on materiality, and are escalated to the Business Unit Technology Risk Committee.	→ We continue to mature and embed our data governance framework and organisational structure to manage data risk including the implementation of new tools to maintain the standards of documentation, clarity and integrity of our data. Protecting our customer and employee data, in particular personally identifiable information, is a high priority, and we take appropriate measures to prevent loss or breaches.

Viability statement

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

Assessment of prospects

The Directors have determined that a three-year period to 31 December 2026 constitutes an appropriate period over which to perform the assessment as:

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

The Group's overall strategy and business model, as set out on pages 18 to 19, and 12 to 13, are fundamental in driving the growth of the business and therefore its future prospects. The key factors that are likely to affect the future prospects of the Group, aside from macroeconomic factors, include the ability to:

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

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

The strategic plan starts with the Group's 2024 annual budget which is subject to reforecasting periodically through the year. The budget is extended into the second and third year of the plan using the Group's various drivers and expected growth rates experienced across the Group.

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

Key assumptions

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

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

Following the disruption to all SMEs caused by various macroeconomic events such as the war in Ukraine and events in the Middle East, energy prices and inflation, we expect that the economy and SMEs have limited recovery from the current market conditions over the medium term.

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

Assessment of viability

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

As part of this assessment, the Directors have considered and carried out a robust assessment of the principal risks as set out on pages 56 to 63. They have also considered the potential impact of the risks on the viability of the Group with specific focus on shorter-term liquidity needs and its availability, including liquidity currently tied up in investment products. The Group currently holds £170 million of unrestricted cash together with £64 million equity invested in loans.

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

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

Severe but plausible scenario

Under a severe downturn it is expected that:

- there would be a short-term period in year one where there would be significantly reduced transaction fees earned, driven by increased inflation and interest rates, alongside a large operational risk event impacting the Group;
- following a further severe global downturn there would be a significant increase in the number of borrowers defaulting impacting LuM and our invested capital cash flows;
- the returns for investors would be negatively affected by the widening of discount rates and deterioration of loan performance resulting in a withdrawal of funding;
- this in turn would reduce the level of originations unless higher incentives were offered to investors to continue funding; and
- over the medium term originations are subdued with LuM and servicing fees consequently negatively affected.

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

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

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

Links to principal risks and uncertainties

- Strategic risk
- Credit risk
- Liquidity risk

Going concern and viability

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

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

The shorter term projections within the Group's strategic plan are also used to assess the Group's ability to operate as a going concern. As at 31 December 2023, the Group had net assets of £247 million, together with unrestricted cash of £170 million and £64 million of invested capital, some of which could be monetised if liquidity needs arise. At all times during the assessment, and after stress scenarios are modelled, the Group retains sufficient financial resources.

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

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities and obligations as they fall due over the period to 31 December 2026 as well as for at least the next 12-month period from the date of this Annual Report.

Corporate governance

Introduction from the Chair

Andrew Learoyd
Chair

I am delighted to introduce Funding Circle's Corporate Governance Report for the financial year ended 31 December 2023.

As a Board, we are committed to maintaining a strong and resilient corporate governance foundation that ensures Funding Circle is a successful, sustainable business that benefits all our stakeholders over the long term.

Board activities

In 2023, the Board has focused on Board and senior management succession planning, Remuneration Policy review, Group strategy, Committee governance enhancements and ESG strategy and reporting, including approving our revised ESG framework. We cover these updates within the respective delegated Committees' reports later in this report.

Board Succession

Eric Daniels will be retiring from the Board at the 2024 AGM. As mentioned further in the Nomination Committee Report, the Board's composition will be reviewed this year in order to address the issue of independence and to ensure that the appropriate skills and experience are present to support the Company's new strategic direction.

Committee structure changes

Our Board Committees do much of the heavy lifting to ensure that we are applying high standards of corporate governance at Funding Circle. Our reputation, our sustainability and our impact depend on a robust system of oversight and controls across all areas of risk (including financial and operational), compliance and regulation. It is for this reason that the Board reviewed our Board Committee composition during the year and resolved to consolidate our separate Audit and Risk and Compliance Committees into one single Audit & Risk Committee effective 1 January 2024. This governance structure change allows the newly formed Committee to have robust oversight over the Group's internal controls and risk management systems in a more effective and efficient manner.

I hope you find the Corporate Governance Report informative. The Board will be available at the Annual General Meeting to respond to any questions you may have on this Report.

Andrew Learoyd
Chair
14 March 2024

Board of Directors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1. Andrew Learoyd

N R E D

Chair of the Board

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

Independent: On appointment.

Skills and experience: Andrew spent 23 years working in investment banking as a research analyst, in corporate finance, in equity capital markets and finally as Chief Operating Officer of the Equities Division in Europe of Goldman Sachs. He retired as a Managing Director of Goldman Sachs in 2006. Andrew has been involved as an angel investor, Non-Executive Director and consultant to several start-up businesses. Andrew was previously a Non-Executive Director of Threshold Sports Limited until the end of 2023.

External appointments: Andrew is also an independent Non-Executive Director of Funding Circle Ltd. and is a Director of WLG Learning Ltd which provides educational services for children with special learning disabilities.

2. Lisa Jacobs

D

Chief Executive Officer

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

Independent: Not applicable.

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

External appointments: None.

3. Samir Desai CBE

Founder, Non-Executive Director

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

Independent: No.

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

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

4. Oliver White

D

Chief Financial Officer

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

Independent: Not applicable.

Skills and experience: Oliver has spent the majority of his 30 years' experience working in financial services, payments and lending. He joined from Vanquis Bank where he served as Chief Financial Officer. He was formerly the Chief Financial Officer at Barclaycard, where he managed a global business with combined assets of £40 billion, £5 billion of revenues and £1.6 billion of profits. Oliver is a chartered management accountant and holds an MBA from Warwick Business School.

External appointments: None.

5. Eric Daniels

RC A

Non-Executive Director

Term of office: Eric was appointed to the Board as a Non-Executive Director in September 2016. He was Chair of the Risk and Compliance Committee until December 2023, when it was replaced by the joint Audit & Risk Committee in January 2024.

Independent: Yes.

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

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

External appointments: Eric is currently a Non-Executive Director of Russell Reynolds Associates. He also advises a number of private companies.

6. Geeta Gopalan

A RC N D

Senior Independent Director

Term of office: Geeta was appointed to the Board as a Non-Executive Director in November 2018. She became Chair of the Audit Committee in November 2018 and Chair of the joint Audit & Risk Committee in January 2024. Geeta was appointed as Senior Independent Director in May 2021.

Independent: Yes.

Skills and experience: Geeta has over 25 years of experience of financial services and retail banking, particularly payments and digital innovation. Geeta was formerly Executive Chair of Monitise Europe. Among the many roles in her career, Geeta was Director of Payment Services with HBOS plc and previously Managing Director, UK Retail Bank and Business Development Head EME at Citigroup. She is a chartered accountant. Geeta was previously a Non-Executive Director at Dechra Pharmaceuticals until January 2024.

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

7. Hendrik Nelis

Non-Executive Director

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

Independent: No.

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

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

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

8. Neil Rimer

E

Non-Executive Director

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

Independent: No.

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

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

9. Helen Beck

R N RC E

Non-Executive Director

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

Independent: Yes.

Skills and experience: Helen has over 25 years of experience in financial services, particularly in remuneration design, regulation and human resources. Helen was formerly a Partner at Deloitte and, among her previous roles in her career, Helen was Global Head of Reward at Standard Bank and Head of McLagan Europe (part of Aon) and held roles in human resources at Fidelity International. Helen was also previously a Non-Executive Director of Irwin Mitchell until September 2023.

External appointments: Helen serves as Non-Executive Director of Ashmore Group PLC (where she is Chair of the remuneration committee), and independent member of the Remuneration Committee of Charles II Realisation LLP. Helen is also a Governor of the University of Bedfordshire and an independent member of the remuneration committee for The British Olympic Association.

10. Matthew King

A R E

Non-Executive Director

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

Independent: Yes.

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

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

11. Lucy Vernall

D

Company Secretary, General Counsel and Chief People Officer

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

Independent: Not applicable.

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

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

Board Committees

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

Corporate governance report

Key Board activity

Attendance and schedule of meetings for 2023

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

The table below sets out attendance at Board meetings in 2023. There were eight Board meetings in total held throughout 2023 which included the strategy meeting in October. The Board schedule remains flexible with additional meetings scheduled as and when required. Attendance for the Committee meetings can be found in each of the Committee reports on pages 81 to 105.

Director	No. of meetings	Attendance
Andrew Learoyd	8/8	100%
Lisa Jacobs	8/8	100%
Oliver White	8/8	100%
Eric Daniels	8/8	100%
Geeta Gopalan	8/8	100%
Hendrik Nelis	8/8	100%
Neil Rimer	6/8	75%
Helen Beck	8/8	100%
Matthew King	8/8	100%
Samir Desai	7/8	87.5%

Matters reserved for the Board

The Board has adopted a formal schedule of matters reserved for its approval and delegated other specific responsibilities to the Committees. Each Board Committee has written Terms of Reference which define the role and responsibilities of the Committees and these are reviewed, along with the schedule of matters reserved for the Board, annually to ensure they are fit for purpose. In December 2023, for example, the Terms of Reference for the newly merged Audit and Risk Committee was approved. The schedule of matters reserved for the Board and the Terms of Reference for all our Committees can be found here: https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-committees/.

Our corporate governance framework

Our corporate governance framework is designed to provide the Funding Circle Group with a robust and resilient framework through which it can be effectively directed and controlled. The Global Leadership Team ("GLT") provides leadership in the day-to-day management and implements the strategy approved by the Board. It is supported by a number of executive committees which provide consistent reporting on key areas of the business. The Board has delegated some responsibilities to its Committees; more information on this can be found on page 72. There is a flow of information both ways between executive committees and the GLT and the Board of Directors and its Committees.

Activities of the Board

Q1 2023 (January – March):

- Full-year results announcement
- Approval of Annual Report and Accounts and AGM Notice
- Investor relations update
- Review of key policies
- Technology review
- KPIs and milestones
- Employee engagement update
- Customer deep dive
- Broker refresh

Q2 2023 (April – June):

- Investor relations update
- Held AGM
- Technology deep dive
- US business deep dive
- Deep dive by newly appointed corporate broker
- Securitisation programme retro
- Employee engagement update

Standing agenda items at all Board meetings include:

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

Q3 2023 (July – September):

- Half-year results (including reforecast)
- Approval of ESG framework
- Approval of 2023 risk appetite
- People deep dive
- Technology update

Q4 2023 (October – December):

- Review of audit tender results and approval of external auditors
- Strategy "off-site" incl. medium-term strategic plan discussion
- Approval of Enterprise Risk Management Framework
- Approval of new Audit & Risk Committee
- Risk and macro deep dive
- 2023 Board evaluation
- IR and tech updates
- 2024 budget

Corporate governance report continued

Key Board activity continued

The role of our Committees

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

- Audit Committee on page 84;
- Risk and Compliance Committee on page 90;
- Remuneration Committee on page 94;
- Nomination Committee on page 81; and
- ESG Committee on page 92.

Market Disclosure Committee

In addition to our other Committees, we also have a Market Disclosure Committee. The Board has delegated to this Committee the responsibility for overseeing the disclosure of information by the Company to meet its obligations under the Market Abuse Regulation, the Financial Conduct Authority's Listing Rules and the Disclosure and Transparency Rules. The Market Disclosure Committee is chaired by the Company Secretary and comprises the Chair of the Board, the Chair of the Audit & Risk Committee, the CEO, the CFO and the CRO. The Committee has at least three scheduled meetings a year and ad-hoc meetings when required. In 2023, the Committee met three times.

Division of responsibilities

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

Board decision making and section 172(1) duties

In our Strategic Report, we identify our key stakeholder groups and what they mean to us and set out our Section 172(1) Statement (pages 42 to 44). The Directors are fully aware of their section 172 duties (and receive training on their duties on an annual basis). In discharging these duties, the Directors have regard to the factors set out in section 172(1)(a)-(f) of the Companies Act 2006, as well as to other factors which they consider relevant to the decision being made (for example, the views of regulators). The Board carefully considers the Company's purpose, mission and values together with its strategic priorities as part of its process for decision making with an aim of ensuring that decisions are consistent. Below are some examples of how the Directors have had regard to the matters set out in section 172(1)(a)-(f) when discharging their duties during the year.

Principal decision	Stakeholders considered	Board's decision-making process
Change of corporate broker	Shareholders	This year, the Company conducted a corporate broker refresh, with management and an appointed sub-committee of three members of the Board, including the Chair, being involved in the process and meeting with six brokers identified by management from an initial list of 13. Following a thorough process, management recommended to the appointed sub-committee of the Board that Investec be appointed, in place of Goldman Sachs, as joint broker for the Company alongside Deutsche Numis. The key reasons for changing brokers were: › to replace a bulge bracket bank generally most suitable for large-cap international public companies with a mid-cap or smaller broker with a UK focus and better suited to the size and requirements of the Company; › to help diversify and evolve the share register by providing better access to UK institutional shareholders and small/mid-cap investors; and › to provide effective research distribution to retail and high net worth investors. The consideration of stakeholders in this decision was that diversification and evolution of the share register would improve liquidity for shareholders, reduce share price volatility and improve the valuation in the market.

Principal decision	Stakeholders considered	Board's decision-making process
Senior debt facility to deliver on FlexiPay's strategy	Borrowers Investors Shareholders Circlers	In June 2023, the Company entered into a secured senior debt facility to fund new originations of drawn credit under FlexiPay lines of credit, with Citibank providing the senior financing and Funding Circle providing the junior funding. FlexiPay plays a vital role in fulfilling our purpose, mission and strategy and achieving the strategic pillars of our medium-term plan so the decisions around how to progress and develop this new product have been made with all our stakeholders in mind but, in particular, our borrowers, as we enable them to spend and pay as well as borrow longer term with our term loan product; our Circlers, who are key to the development, implementation and management of the product; and our communities which rely on the SMEs that get their funding through us to win.
ESG framework	Borrowers Investors Shareholders Circlers Government and regulators Communities	The Board is committed to ensuring the impact of the Company's operations on the community, its stakeholders and the environment is a positive one. A key focus of the ESG Committee in 2023 was to agree a revised ESG framework for recommendation to the Board. This was approved by the Board in July 2023. The ESG Committee used its role to offer challenge on the clarity of goals, the level of ambition and strategy, and to ensure focus on execution against the ESG framework. Investor, shareholder and government stakeholder considerations related to primarily to emissions reporting, climate risk management, peer benchmarking and reporting obligations. Other stakeholder areas of consideration and focus included social impact initiatives aimed at borrower customers and communities as well as increased transparency related to ESG-related policy statements for all stakeholders and continued support for Circler Groups. To read more about the ESG framework, see page 22 of the Strategic Report.
Updating our Enterprise Risk Management Framework	Borrowers Investors Shareholders Circlers Government and regulators	In 2023, the Board, in conjunction with the Board's Risk and Compliance Committee, reviewed the Group's principal risks as outlined in its Enterprise Risk Management Framework. A decision was made to make technology, data and security risk a principal risk of the Group rather than continuing as a risk under operational risk. The Board is responsible for approving the level of risk acceptable under each principal risk category, whilst providing oversight to ensure there is an adequate framework in place for reporting and managing those risks. Given the strategic importance of tech, security and data, failure to manage the risk appropriately would put us and our stakeholders at risk financially, operationally, and reputationally and moving this to a principal risk demonstrates why the Risk and Compliance Committee reviews the Group's principal risks and risk appetite regularly.
Audit tender outcome	Borrowers Investors Shareholders Government and regulators	The Audit Committee conducted an external audit tender process, in line with best practice, as its existing auditors, PwC, had been in place since 2015 and the existing audit partner was required by regulations to rotate off after 2023. Following a rigorous and transparent tender process, two firms, PwC and BDO, were shortlisted and the Board agreed, upon the recommendation of the Audit Committee, to retain PwC as Funding Circle's Group external auditors with a new audit partner taking over from Nick Morrison following the 2023 audit. Ensuring auditor independence is critical in supporting Funding Circle's robust financial controls and was considered carefully when reaching the decision. Additionally, Funding Circle's reputation is paramount to its success in Borrowers and Investors wanting to do business with us, and in maintaining shareholders' confidence in the accuracy of our financial results. More details on the audit tender process can be found on page 88 of the Audit Committee Report.

Corporate governance report continued

Key Board activity continued

Principal decision	Stakeholders considered	Board's decision-making process
Monitoring the effects of the external environment	Borrowers Investors Shareholders Circlers Government and regulators Communities	2023 continued to show market volatility and uncertainty generated by a challenging economic environment. The Board has closely monitored the effects of the external environment throughout the year through regular reports on the impact of the decision made in regards to the direction of the business on its customers and Circlers. As a result, Funding Circle has continued to swiftly implement credit risk changes where appropriate, maintained disciplined pricing for loans and expanded our product offering to cater to businesses with varying credit risk profiles or seeking shorter repayment periods.

The UK Corporate Governance Code 2018

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

Provisions 10 and 19 provide that the Chair should not remain in post beyond nine years from the date of their first appointment to the Board. Andrew Learoyd has served on the Board for more than nine years from the date of his initial appointment in 2010 and therefore does not qualify, for the purposes of the Code, as independent. The Board has always been of the opinion, as mentioned in previous Annual Reports, that Andrew's tenure reset upon the Company's IPO back in 2018. Furthermore, the Directors are of the opinion that, despite his tenure on the Board, Andrew continues to provide critical stability of leadership and support which is much needed by the Company with the current macroeconomic environment and the delivery of the Company's medium-term plan. The Nomination Committee has commenced the search process for Andrew's successor with a view to appointing a new Chair by no later than 2025 so that the new leadership of the Board can coincide with the development of the future strategic vision. Andrew will continue as Chair until at least the end of 2024 to facilitate effective succession planning. Further detail on the Chair's performance and tenure and succession planning can be found in the Nomination Committee Report on page 83.

Provision 11 requires that at least half the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. For the duration of 2023, the Board was not compliant with this provision as one of the former Executive Directors, Samir Desai, and two large shareholder representative directors are appointed as Non-Executive Directors and there are two Executive Directors on the Board as well. As a result, only 40% of the Board is considered by it to be independent. The Nomination Committee will be looking at the Board's composition in 2024 to ensure that it aligns with the Company's new strategic direction. Please see the Nomination Committee Report on page 83 for additional details.

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

Application of the principles of the Code

Board leadership and company purpose	
Principle A.	
A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Funding Circle's purpose is to help SMEs win which is underpinned by several values including "Make it Happen" and "Live the Adventure" which ask Circlers to embrace the founding entrepreneurial spirit with which Funding Circle was established. The Board embraces these values as part of its decision-making process which is always in the long-term sustainable interests of the Company to generate value for shareholders and the wider society.
Principle B.	
The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Information on the Company's purpose, values and strategy are set out in the Strategic Report on pages 2 to 5. Funding Circle is dedicated to implementing and maintaining the highest standards of behaviour, ethics and integrity among its workforce, and to creating a culture where adherence to these standards is recognised and rewarded. All Directors on the Board, along with all Circlers, sign up to the FC Code of Conduct which outlines these standards. The Code of Conduct supports our mission and complements our values against which performance is appraised, providing guidance on the conduct expected of each individual.
Principle C.	
The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	The Board delegates oversight and management of risk to the Risk and Compliance Committee which regularly reviews the ERMF. This will be delegated to the new Audit & Risk Committee as of 2024. Further information on the assessment and management of risk can be found on page 53. The Board is comfortable that sufficient resources are in place for the Company to meet its objectives and measure performance against them. As the Company grows and seeks to achieve its medium-term plan, the Board continues to support the GLT with the implementation of objectives and key results ("OKRs") across the whole business.
Principle D.	
In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Funding Circle has a wide and varied group of internal and external stakeholders which the Board keeps in mind during all discussions. More information about Funding Circle's stakeholders and our newest value, "Obsess over the Customer" can be found on page 5. Our investor relations team supports the Board with continuous engagement with shareholders. The Directors have full regard to their duties set out under section 172 of the Companies Act 2006 when making decisions. Our Section 172 Statement can be found in the Strategic Report on page 43 and detail on Board decision making can be found on page 72.
Principle E.	
The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Workforce policies and practices are regularly reviewed by the Board and Committees and the Board is satisfied that they are consistent with the Company's values and support its long-term sustainable success. Helen Beck is our dedicated Non-Executive Director for the workforce providing a vital connection between the Board and Circlers. In 2023, Helen attended two focus groups and met with ~30 Circlers to gain diverse views across various departments. Further information on Helen's activities on workforce engagement can be found on page 93. As part of our "Be Open" value, we want to ensure we foster an environment where Circlers are encouraged and feel safe to freely raise issues of concern. We have a dedicated whistleblowing process which provides channels for Circlers to communicate and report issues of concern. Our Audit Committee receives regular whistleblowing updates. Further information can be found in the Audit Committee Report on page 88.

Corporate governance report continued

Key Board activity continued

Division of responsibilities	
Principle F.	
The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. **In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.**	The Board's annual effectiveness review asks members of the Board to rate the quality of the Chair's leadership and how he facilitates good challenge and debate in the boardroom. The Chair consistently receives high praise from fellow Board members and continues to demonstrate effective leadership and objective judgement, promoting a culture of openness and debate, by giving each Director an opportunity to voice their opinion. The Senior Independent Director also leads an annual review of the Chair's performance and tenure on behalf of the Board which concluded that the Chair continues to provide exceptional leadership, and is effectively steering the Board through a challenging economic environment.
Principle G.	
The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. **There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.**	The Board is comprised of the Chair, two Executive Directors and seven Non-Executive Directors which provides a good balance between the Executives and Non-Executives on the Board. As mentioned earlier in this report, the composition of the Board from an independence perspective does not currently comply with the Code. The Nomination Committee is keen to reduce the number of Directors on the Board and improve the balance between independent and non-independent Directors in the course of 2024, details of which are outlined in the Nomination Committee Report on page 83. There is a clear division of responsibilities between the executive leadership and Board leadership. The responsibilities of our key roles can be found on our website: https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-responsibilities.
Principle H.	
Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	The attendance of Board members can be found on page 70 and Committee attendance as part of the Committee reports on pages 81 to 94. The Nomination Committee will review any external appointments when considering a new Director for the Board and when a Director wishes to take on an external appointment, the Board will assess how much of that Director's time the new appointment would take before approving any appointment. The Board also reviews existing Directors' time commitments annually before it approves their re-appointment for recommendation to shareholders for their re-election. The Nomination Committee reviews whether Non-Executive Directors continue to constructively challenge management and provide strategic and specialist advice when reviewing the composition of the Board.
Principle I.	
The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Every member of the Board has access to the Company Secretary, who provides support and advice to the Board on all governance matters. The Company Secretary works with the Chair to set the appropriate number of Board meetings held in the year to discharge its responsibilities effectively. The Company Secretary also ensures the Board has the appropriate information presented and the resources it needs to function effectively and efficiently. Policies are reviewed annually by the Board and/or its Committees as appropriate and, in the spirit of our value "Think Smart", the team regularly reviews existing processes to ensure they are fit for purpose and support the smooth functioning of the Board.

Composition, succession and evaluation	
Principle J.	
Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. **Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.**	The Nomination Committee reviews the structure, size and composition of the Board, to maintain and develop a robust succession plan for the Board and GLT. The Nomination Committee engages with external search agencies when searching for candidates for the Board or the GLT. The Company's policy is that no individual should be discriminated against on any of the grounds of race, ethnicity, religious belief, political affiliation, gender, age, sexual orientation, gender assignment, marriage or civil partnership, pregnancy and maternity or disability. This extends to Board appointments. Additionally, in February 2024, the Board approved a Board Diversity Policy which can be found on our website under the Nomination Committee tab: https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-committees/ Funding Circle's "Stand Together" value cements our commitment to creating and sustaining a diverse workforce and inclusive environment. More information on our approach to diversity, equity and inclusion can be found on page 25.
Principle K.	
The board and its committees should have a combination of skills, experience and knowledge. **Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.**	The Nomination Committee uses a skills and experience matrix to regularly review the structure, size and composition of the Board and its Committees, taking into account the skills and experience, length of service and time commitment. The Nomination Committee is currently undergoing a board succession review which is described in more detail in the Nomination Committee Report on page 83. In 2023, the Board approved, with the recommendation of the Nomination Committee, the creation of a combined Audit & Risk Committee, replacing the old Audit and Risk and Compliance Committees, exhibiting how the Board continuously considers the efficacy of its Committees and its overall governance framework.
Principle L.	
Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	The Board completes an annual evaluation which comprehensively evaluates the composition of the Board including whether the combination of skills and experience on the Board is fit for purpose. The evaluation also reviews how members work together to meet the objectives set for the Board. Details of the results of the Board evaluation can be found on page 80. Performance of each Director is evaluated as part of the succession planning process and an evaluation of the Chair is carried out by the Senior Independent Director, details of which can be found in the Nomination Committee Report on page 83.

Corporate governance report continued

Key Board activity continued

Audit, risk and internal control	
Principle M.	
The board should establish formal and transparent policies and procedures to ensure independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	The Board has formal and transparent procedures in place to ensure the independence and effectiveness of the internal and external audit functions. An effectiveness review of both the internal and external audit functions was completed during the year which included an evaluation of professional integrity and independence. Further details of the evaluations can be found in the Audit Committee Report on page 87. The Board delegates responsibility for ensuring the integrity of the financial and narrative statements to the Audit Committee. Further detail can be found on pages 84 to 89.
Principle N.	
The board should present a fair, balanced and understandable assessment of the company's position and prospects.	The Board has delegated to the Audit Committee responsibility for overseeing the financial and corporate reporting and internal financial controls of the Company and its subsidiaries. This includes reviewing the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable. Details of this process and the focus of the review and of the Audit Committee's role, activities and relationship with the external auditors are on pages 87 to 88 of the Report of the Audit Committee. An explanation from the Directors about their responsibility for preparing the financial statements can also be found in the Statement of Directors' Responsibilities on page 120. The Company's external auditors explain their responsibilities on pages 122 to 128.
Principle O.	
The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long term strategic objectives.	The Board retains ultimate responsibility for the Group's systems of internal control and risk management but has delegated in-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations to the Risk and Compliance and Audit Committees. The Risk and Compliance Committee also monitors compliance with the ERMF. More information on the ERMF is provided on page 55. In December 2023, the Board reviewed our Board Committee composition and resolved to consolidate our separate Audit and Risk and Compliance Committees into one single Audit and Risk Committee effective 1 January 2024. This governance structure change allows the newly formed Committee to ensure robust oversight over the Group's internal controls and risk management systems in a more effective and efficient manner, removing duplication across the two legacy Committees. Members of the GLT are responsible for the application of the ERMF, for implementing and monitoring the operation of the systems of internal control and for providing assurance to the Board and its relevant Committees. The Internal Audit function provides independent and objective assessment on the robustness of the ERMF and the appropriateness and effectiveness of internal controls to the Board and its relevant Committees. More information on the Internal Audit function is set out in the Audit Committee Report on page 86.

Remuneration	
Principle P.	
Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	Our Remuneration Policy applies to the roles of Chair, Executive Directors and Non-Executive Directors and was designed to support strategy and promote the long-term sustainable success of the Company. The Policy has been reviewed this year, in line with Code requirements, and is being put forward to shareholders for approval at the 2024 Annual General Meeting. A full version of the Policy can be found on page 98 of the Remuneration Report. Further information on our remuneration policies and practices and how the remuneration is aligned to our values, culture and strategy can be found in the Directors' Remuneration Report on page 96.
Principle Q.	
A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	The Board has delegated its responsibility to the Remuneration Committee for setting the remuneration for the Executive Directors, the Chair and those on the GLT. No individual is present in the meeting, or segment of the meeting, that discusses their remuneration. Please see the Directors Remuneration Report on page 96 for more detail.
Principle R.	
Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Board has delegated the responsibility for recommending remuneration outcomes to the Remuneration Committee. All decisions relating to remuneration outcomes take account of Company and individual performance as well as wider circumstances such as ESG targets and initiatives. Details of how the Remuneration Committee exercised its discretion in the year can be found in the Directors' Remuneration Report on page 94 to 96.

Corporate governance report continued

Board effectiveness review

The Board takes its continuous improvement and development very seriously and, at the end of 2023, conducted a detailed internal effectiveness review of the performance of the Board and individual Directors. Topics included: leadership and purpose, composition and division of responsibility, independence, board meeting progress, board development and support, risks and controls oversight, and culture and stakeholder engagement oversight. The evaluation process is outlined below:

Scope and planning
The Chair and Company Secretary met to determine the proposed scope and approach of the questionnaire to be circulated for completion.

Obtaining feedback
Tailored questionnaire was agreed and circulated by online software to all Directors and the Company Secretary to gain feedback on the Board's effectiveness.

Analysing and reporting
The results of the questionnaire were analysed with key themes summarised in a final report presented to the Board for discussion. Actions were agreed to take forward.

Outcomes

The evaluation concluded that the Board and its Directors continue to be effective. There were constructive comments in regards to the size, composition and succession planning of the Board which will be considered further by the Nomination Committee in 2024. Some other areas noted for improvement, which the Board committed to addressing in 2024, included:

- reviewing the Board agenda programme to ensure the appropriate deep dive topics and frequency are scheduled;
- ensuring all Board members have access to all Board Committee meetings and materials even if they are not members of those Committees;
- encouraging further active shareholder engagement by management and the Chair; and
- improving the tracking and reporting on a range of agreed KPIs and milestones by better building this into management's quarterly reporting to the Board;

Progress against actions identified in 2022 effectiveness review

Set out below is the progress in 2023 against actions identified through the 2022 Board effectiveness review:

Action for 2023	Progress
Reducing the length of Board papers .	Management paper quality has significantly improved during 2023 and feedback from the Board has been very positive to date.
Agreeing in advance an expected agenda for the 2023 Board meetings including deep dive topics.	An action taken by the Chair is to circulate the 2024 expected Board agenda for commentary and adjust the schedule accordingly.
Scheduling time on the agenda for the workforce engagement Non-Executive Director to provide more substantial updates on their work with Circlers.	The DNED for employee engagement provides regular updates to the Board on workforce engagement matters and this will continue in 2024.
Establishing an effective way of managing the Board's annual agenda plan by scheduling shorter, more focused Board meetings for approval of half year and full year results and longer meetings for in-depth reviews of the key elements of our business model and strategic direction.	The Board's 2023 schedule had been tailored to ensure appropriate time was scheduled for more in-depth reviews including the strategy day held in October 2023. This will continue in 2024.
Improving the tracking and reporting on a range of agreed KPIs and milestones in Board papers.	This continues to remain an ongoing area for improvement as noted in the 2023 effectiveness review feedback.

The Board discussed the value of an externally facilitated evaluation at length including the recommendation in Provision 21 of the UK Corporate Governance Code 2018 and the value of an external evaluation from the perspective of stakeholders. The Board decided that it was not needed at this time as the internal evaluation was rigorous with full engagement and candid responses from Board members. Areas of improvement were identified which the Board is fully committed to working on in 2024.

Report of the Nomination Committee

Andrew Learoyd
Chair of the Nomination Committee

Members and attendance

Member	Meetings	Attendance
Andrew Learoyd (Chair)	3/3	100%
Geeta Gopalan	3/3	100%
Helen Beck	3/3	100%

2023 Committee activity

February

- Committee Terms of Reference review
- Succession planning for Board and Committees
- Board composition including independence
- Committee and Board performance review results
- Director conflicts and NED time commitment annual review
- Recommendation for Directors to stand for re-election at the AGM
- Review and approval of Nomination Committee report in 2022 ARA

July

- GLT succession planning
- Board composition including independence

December

- Recommendation of composition of new Audit & Risk Committee

Key activities for 2024

- Drive forward the process of succession planning for the Chair of the Board and continue succession planning for the members of the GLT
- Size and shape the Board consistent with the needs of the Company's new strategic direction

Introduction from the Chair

On behalf of the Board, I am pleased to present the Nomination Committee's Report for the year ended 31 December 2023.

The Committee met three times in 2023 which enabled us to cover all our duties and responsibilities. In this report, we have provided information on the activities of the Committee in 2023 as well as the Committee's work on Board composition, succession planning, diversity and evaluation. Where we have diverted from the UK Corporate Governance Code 2018, we have provided a clear explanation as to why this is the best approach for Funding Circle at this time.

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

Board diversity

The Committee is mindful of the importance of ensuring the Board's diversity in the broadest sense. With this in mind, the Board considers the guidance published by the Parker Review on ethnic diversity in the boardroom, the FTSE Women Leaders Review (formerly the Hampton-Alexander Review) on gender diversity in the boardroom and the requirements of the Code in relation to composition and succession of the Board. In addition, in February 2024, the Board adopted a Board Diversity Policy which can be found on our website.

Report of the Nomination Committee continued

Board diversity continued

DEI is a priority at Funding Circle, which extends across the Company at all levels. DEI is a key component of our ESG framework, overseen by our ESG Committee and which works closely with the Nomination Committee to support and oversee the implementation of diversity goals across the Group including at Board level.

Group diversity statistics can be found in the Strategic Report on page 25. The Nomination Committee recognises that there is still work to be done at a senior leadership level and discussed extensively the work being done to improve diversity across the Group. This extends to the various processes to drive diverse recruitment, alongside a range of internal talent development initiatives to support our efforts such as a female empowerment programme, emerging leaders (and senior leadership) programmes, and reverse mentoring.

The following comprises our reporting against the FCA's Listing Rule targets and requirements on diversity and inclusion on company boards and executive management:

Gender representation in the Board and senior management – 31 December 2023

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	7	70%	2	6	75%
Women	3	30%	2	2	25%
TOTAL	**10**	–	–	**8**	–

Ethnicity Representation in the Board and senior management – 31 December 2023

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	8	80%	3	6	75%
Asian/Asian British	2	20%	–	–	–
Other Ethnic Group	–	–	–	2	25%
TOTAL	**10**	–	–	**8**	–

Skills and experience

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

The skills and experience of the Directors on the Board were evaluated as part of the annual effectiveness review and our succession plan for the Board will take into account the appropriate skills and expertise to match the Company's new strategic direction.

Appointment and induction process

There have been no further appointments to the Board during 2023. When it is identified that the Board requires additional Directors, the Committee leads a formal, rigorous and transparent process for appointments in accordance with the Board Diversity Policy. The Committee is responsible for preparing the role description which includes defining the specific skills required and expected time commitment of the role. The Committee may engage the services of external advisers to facilitate the search for a candidate and always insists on a diverse pool of candidates for review.

Director induction programmes to the Funding Circle Board are facilitated by the Company Secretarial team and overseen by the Nomination Committee.

Progress on actions from 2022 Committee effectiveness review

Feedback from the 2022 effectiveness review noted that the Committee needs to spend further time reviewing the length of service of Board members and establish a clear plan for rotating Directors off the Board. It was also agreed that the Committee would continue to develop and carry forward the plan to find my successor. Work on finding a new Chairman has now started.

It was also recommended that Committee members should spend some time in 2023 meeting with direct reports of the GLT and this was actioned during the year.

2023 Committee effectiveness review

The Company Secretarial team facilitated an effectiveness review of the Nomination Committee at the end of 2023. A comprehensive questionnaire was distributed to all the Committee members. All members of the Committee and the Company Secretary responded to the questionnaire and engaged with the evaluation process.

Overall, scores were good across all elements of the questionnaire of the Committee's effectiveness. There was consistent commentary amongst all members noting that Board succession planning, including the Chair, must be a key priority for 2024.

Re-election

Eric Daniels has notified the Board that he will not be standing for re-election at the 2024 AGM. The Committee has recommended to the Board that the other remaining Directors stand for re-election at the forthcoming AGM.

Senior management succession

The Committee's responsibilities include making recommendations to the Board for orderly succession for appointments to senior management and keeping the executive leadership needs of the Company and its Group under review, with a view to ensuring they continue to compete effectively in the marketplace.

Board succession, composition and the year ahead

There have been no changes to our Board since the Annual General Meeting in 2023. Whilst the Company is not currently majority independent, the Committee has discussed in depth the composition of the Board in respect of independence and tenure and in respect of aligning the Board's composition with the Company's needs.

The Company's new strategic direction, announced on 7 March 2024, is expected to result in a leaner, simpler and more focused organisation. I expect that these characteristics will also be reflected in changes to the Board over the coming year with the Committee committed to delivering a smaller sized Board and further addressing the issue of independence.

Andrew Learoyd
Chair of the Nomination Committee
14 March 2024

Chair performance and tenure

The Committee is conscious that there is non-compliance with Provision 19 of the Code which provides that the Chair should not remain in post beyond nine years from the date of their first appointment to the Board. An explanation as to why the Board does not currently comply with this Provision of the Code can be found in the Corporate Governance Report on page 74.

The matter of Andrew's tenure on the Board has been discussed at length by the Committee. The Committee and the Board unanimously agree that Andrew continues to provide critical stability of leadership. The Committee has commenced the search process for Andrew's successor with the appointment of an external adviser and plans to appoint a new Chair by March 2025. The Committee intends to have a smooth transition between Chair roles to ensure the right level of support and stability of leadership is maintained throughout.

Geeta Gopalan
Senior Independent Director

Report of the Audit Committee

Geeta Gopalan
Chair of the Audit Committee

Members and attendance

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

On behalf of the Board, I am pleased to present the Report of the Audit Committee for the year ended 31 December 2023. This will be the final year in which we report against the Audit Committee as we will be presenting a report on behalf of the newly formed Audit & Risk Committee in next year's Annual Report.

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

Key highlights 2023

- Reviewing the integrity of the half-year and full-year financial statements, ensuring they were fair, balanced and understandable, considering significant accounting judgements, estimates and disclosures, the impact of the macro economic environment and the Group's ability to continue as a going concern, together with its viability disclosures.
- Challenging, monitoring and evaluating the effectiveness of both financial and non-financial controls in the Company.
- Completing in-depth evaluations on the effectiveness of the Internal Audit team and external auditors as well as the Committee itself.
- Recommending to the Board the approval of external auditors' fees.
- Undertaking an external audit tender process and recommending reappointment of PwC as external auditors after due consideration of the shortlisted participants.
- Approval of creation of joint Audit & Risk Committee, effective 1 January 2024.

2024 audit-related priorities for the joint Audit and Risk Committee

- Successfully embed the joint Audit and Risk Committee's matters reserved into its inaugural annual meeting cycle.
- Continue to assess accounting judgements and estimates, particularly in relation to a provision for expected credit losses on FlexiPay lines of credit as well as the new product launches as they mature and grow in volume.
- Continue to review the Group's internal financial controls and internal control systems to ensure they continue to develop in line with the Group's business.
- Continue to monitor and oversee the performance and independence of both Internal and External Audit teams.

Committee composition, skills and experience

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

All members of the Committee have relevant financial experience across banking and financial services, demonstrating competency relevant to the sector in which Funding Circle operates, including the Committee Chair who is a Chartered Accountant.

Every Committee agenda schedules some time for Committee members to privately discuss matters with the external and internal auditors, who regularly attend all meetings, without management present.

As Funding Circle Ltd ("FCL") is authorised and regulated by the Financial Conduct Authority, it has its own Audit Committee, chaired by the Chair of the FCL Board, Matthew King. The FCL Audit Committee meets at the same time as the Committee and Matthew King attends in his capacity as both member of the Committee and Chair of the FCL Audit Committee. Going forward in 2024, this will now be the FCL Audit and Risk Committee.

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

Significant matters considered in relation to the financial statements

The Committee assessed the quality and appropriateness of, and adherence to, the Group's accounting policies and principles. It reviewed whether the accounting estimates and judgements made by management were appropriate. The significant matters and accounting judgements considered by the Committee in respect of the half year ended 30 June 2023 and year ended 31 December 2023 are set out below.

Reporting issue	Audit Committee action
Going concern and viability The period over which the Directors have determined the viability assessment is three years. Going concern is assessed annually based on detailed cash flow forecasts for the next 15 months including a severe but plausible downside scenario. Inflationary pressures have been prominent during the year, impacted by supply chain disruption, and exacerbated by the events in Ukraine and the Middle East, while economic growth forecasts in the UK and US have been revised downwards. These factors have been considered in the above assessments.	The Committee reviewed reports from management that set out its view on both the shorter-term going concern and longer-term viability of the Group. These included: › reviewing the Group's principal risks as set out on pages 56 to 63; › assessing and reviewing the adherence to the risk appetite set by the Risk and Compliance Committee to track the Group's capital, liquidity and exposures of its funding products; › reviewing the Group's short and medium-term plan, cash, capital and liquidity; › reviewing the outcomes of stress testing after applying a severe but plausible scenario aligned to the principal risks; and › reviewing the risk, going concern and viability disclosures for clarity on scenarios, uncertainties, sensitivities and management actions considering macroeconomic risks in particular. Having challenged and considered the outcomes of management's assessment, the Committee recommended the Viability Statement to the Board for approval, concluded the Group remains a going concern and considered that related disclosures were sufficiently clear and transparent.
Valuation of financial instruments The Group holds financial instruments at fair value on its balance sheet. These instruments are valued using valuation estimation techniques including discounting cash flow analysis and valuation models. These values have been sensitive to the assumptions underpinning the cash flows, leading to increased estimation uncertainty in the past, however, are less sensitive this financial year as the portfolios of loans have amortised.	The Committee received and reviewed the assumptions and methodologies used to value the financial instruments together with the level of sensitivity to those assumption, which was considered to have decreased since the previous year. The Committee also considered the views of the external auditors on the valuation approach and the assumptions, including benchmarking the assumptions with the external auditors' valuations team. The Committee considered the disclosures within the Annual Report and after due challenge concluded that the valuations were reasonable and the disclosures were appropriate.
Expected credit loss impairment of FlexiPay The Group holds FlexiPay lines of credit on its balance sheet. These lines of credit are held at amortised cost net of IFRS 9 expected credit loss impairment allowance. The allowance is sensitive to assumptions related to the probability of default derived from macroeconomic assumptions.	The Committee received and reviewed the assumptions and methodologies used to determine the expected credit loss together with the level of sensitivity to those assumptions. The Committee also considered the views of the external auditors on the methodology and the assumptions, including comparing the results to the external auditors independent estimation of the allowance. The Committee considered the disclosures within the Annual Report and after due challenge concluded that the valuations were reasonable and the disclosures were appropriate.

Report of the Audit Committee continued

Significant matters considered in relation to the financial statements continued

Reporting issue	Audit Committee action
Carrying value of investments in the Parent Company The Group evaluated the carrying values of the investments in subsidiaries held in the Parent Company for indicators of impairment and the value in use of the investments as at 31 December 2023. This has resulted in an impairment of the US business of £27m. This was primarily driven by the market capitalisation of the Group being lower than the carrying value of the parent company investment in subsidiaries and evidence the Group Board were considering the future direction of the US business at the year end resulting in uncertainty over the near-term cash requirements and cash flows of the business.	The Committee reviewed papers from management during the year which set out the key assumptions underpinning the impairment assessment and the sensitivity to those assumptions, the financial projections of which were based on the medium-term plan presented to the Board as part of the 2023 budget process with some overlays from management. The Group's external auditors provided their view of the assessment to the Committee, including their challenge of the discount rates and management's medium-term plan assumptions. After due challenge and discussion, the Committee agreed that it was appropriate to impair the parent company investment in the US business as its discounted cash flows, particularly in the near term, could not support the carrying value.
Fair, balanced and understandable reporting and Alternative Performance Measures ("APMs") The Board is required to report as to whether the contents of the 2023 Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable. The Group uses APMs in its reporting of adjusted EBITDA for the Group. These measures are used to provide insight into the underlying performance of the business. They also provide a close approximation to cash generation which is key to the business. These measures are defined within the segmental information note on page 148 and page 191.	At the request of the Board, the Committee has assessed the information contained within the Annual Report. This assessment included discussions with management on the underlying financial processes, and confirmation from the management team of their review of the Annual Report being fair, balanced and understandable. The Committee also discussed the contents of the Annual Report with the external auditors. In addition, the Committee also considered the use of various APMs and other measures used by the Group and agreed that these supported the understanding of the financial performance of the Group and facilitated a better understanding of the business. The Committee was satisfied that there was sufficient disclosures of the same with the appropriate balance and reconciliation between these and statutory measures in the accounts. Having considered all of the available information including previously published information about the business and press releases through the year the Committee has concluded that, in its judgement, the 2023 Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable.

Internal controls

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

Internal Audit

The Committee receives updates on Internal Audit's work at each meeting, including a six-monthly assessment of the Group's risk and control framework.

The Committee considered, challenged, approved and monitored the Internal Audit plan. Throughout the year, the plan was regularly assessed to ensure it remained focused on the Group's key risks and priorities. All proposed audit plan adjustments were considered, challenged and approved by the Committee. Areas assessed by the Internal Audit team during 2023 included:

- credit models and credit strategy;
- FlexiPay operational scaling;
- controls in the outsourced US loan servicer;
- cyber security;
- business resilience; and
- the end-user computing control framework.

The Internal Audit plan for 2024 was approved by the Committee in December 2023 and aligns to areas of highest inherent risk and strategic, operational and regulatory priority, including:

- FlexiPay product development and growth;
- technology strategy delivery;
- operational resilience;
- third-party management; and
- change management.

Internal Audit effectiveness review

An effectiveness review was conducted by the Committee to evaluate the performance of the Internal Audit team.

Areas assessed included: knowledge, skills and alignment to strategy; delivery and reporting; independence and professional scepticism; and ongoing engagement.

The outcomes of the evaluation overall were excellent with high scores demonstrating that the Internal Audit team remained independent, objective and effective, with sufficient resources available to provide the necessary assurance across the Group. There were a small number of areas suggested for further enhancement that will be appropriately progressed during 2024.

External auditors' independence and effectiveness

External auditors:	PwC
Length of tenure:	9 years (appointed in 2015)
Lead audit partner:	Nick Morrison**
Lead audit partner tenure:	5 years
Total audit fees payable to auditors in the year:	£983,200

** Nick Morrison is replaced by Heather Varley for the purposes of the FY24 audit following mandatory rotation after Nick's five-year tenure as lead audit partner.

The Committee monitors the objectivity, independence and effectiveness of the external auditors. The Company is mindful of the provisions of the Code, best practice, the Competition and Market Authority Audit Order 2014 and audit legislation in particular with regard to audit firm rotation and the provision of non-audit services.

The Committee operates a policy for the tender of external audit services. This policy provides that, in accordance with applicable law and regulation, the Company will re-tender the external audit at least every ten years since IPO and will change the external auditors at least every 20 years. The Committee determined that it was in the best interests of shareholders to commence a competitive tender of external audit services during 2023, as detailed further in this report.

The Committee regularly reviews the objectivity and independence of the external auditors and has concluded this is safeguarded by:

- obtaining assurances from the external auditors that adequate policies and procedures exist within its firm to ensure that the firm and staff are independent of the Group by reason of family, finance, employment, investment and business relationship (other than in the normal course of business);
- enforcing a policy of reviewing all cases where it is proposed that a former employee of the external auditors be employed by the Group in a senior management position or at Board level;
- monitoring the external auditors' compliance with applicable UK ethical guidance on the rotation of audit partners; and
- approving non-audit services prior to being undertaken by the external auditors.

The quality, performance and effectiveness of the external auditors is reviewed annually by the Committee. This covers: the quality of robust challenge provided by the audit team; an evaluation of the knowledge and skills of the external audit team; the accessibility of the lead audit partner; independence and objectivity; openness, integrity and professionalism; the quality of reporting; the audit plan; communication between external auditors and the Committee; and the audit team's robustness and constructive challenge during its engagement with management.

The external auditors challenged management over the various scenarios that they had modelled, the level of stress testing in the models and the impact that this would have on the ability of the Group to continue as a going concern. There was also robust challenge around the methodology and assumptions utilised in the FlexiPay lines of credit expected credit loss impairment allowance, the fair value of loans held on balance sheet and the impairment assessment related to the Parent Company investment in subsidiaries.

Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can impact on the independence assessment and the Company has, therefore, adopted a policy which requires Committee approval for non-audit services. This policy is in line with PwC's internal policies and the FRC's Revised Ethical Standard 2019 and gives the Chair of the Committee delegated authority from the Committee to approve individual non-audit services items of up to £50,000 per service.

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

Report of the Audit Committee continued

External audit fees: Non-audit and audit-related services

Description	2023 £000	2022 £000
Interim review of half-year results announcement	**137.7**	116.1
CASS reporting	**140.4**	132.7
ISAE 3402 controls assurance	**134.4**	136.3
Other	**1.4**	2.9
Total	**413.9**	388.0

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

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

Total audit fees payable to PwC for the year ended 31 December 2023 were £983,200.

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

External audit tender process

A formal tender of the external audit had not been carried out since PwC were first engaged in 2015. Although the Board and the Audit Committee remain satisfied with PwC's quality of service, as well as their independence and objectivity, the Audit Committee recommended to the Board that a competitive tender process take place in 2023, in accordance with the Competition and Markets Authority order and EU legislation, given that the current audit partner was reaching his maximum five-year tenure at the end of 2023.

In accordance with legislation, four firms including representatives from the "Big Four" and Challenger firms were invited to participate, including PwC, and the firms were asked to submit a detailed Request for Proposal ("RFP").

The RFP was judged against objective criteria. The criteria included, but were not limited to, the ability to deliver a high quality audit, strength of team and its ability to challenge, use of technology and depth of supporting expertise in the firm. Two firms were shortlisted and were scored against objective criteria determined in advance of the process. Findings of audit quality inspection reports published by the FRC were also considered. Fees proposed by the two firms were also taken into consideration, but the ability to deliver a high quality audit was the largest single factor driving selection.

The shortlisted firms were given access to members of the Group's senior management team and presentations were then made to a panel, comprising members of the Audit Committee, the CFO and members of the senior finance and legal teams.

While both firms put forward a strong tender and would have been able to deliver a successful and robust audit, the Committee considered that PwC best met the criteria that had been set, in particular one of audit quality. In line with the partner rotation policy, a new PwC Audit Partner, Heather Varley, will be the Audit Partner for the 2024 external audit.

At the conclusion of the process, the Audit Committee recommended to the Board that PwC be reappointed as the Company's external auditors for the financial year ending 31 December 2024 and the Board approved this recommendation. A resolution recommending the reappointment of PwC as external auditors of the Company will be put to shareholders at the Company's AGM in May 2024.

Whistleblowing

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

The whistleblowing process is well advertised to all employees, who are made aware of the importance of it. There were no whistleblowing incidents reported in 2023.

As part of the Committee's commitment to ensuring the whistleblowing process and handling of potential incidents are of the highest standards, the Committee asks management for a detailed annual update for discussion by the Committee in addition to the regular Committee updates. For 2023, this was provided in the February meeting and the Committee determined that the incidents in 2022 were responded to quickly, with actions followed up, and that the Committee members were satisfied with the way incidents had been managed.

Progress on actions from 2022 effectiveness review

Feedback from the 2022 effectiveness review noted that the Committee would have a further focus on resilience and contingency planning. The Committee reviewed an update on the Group's business resilience control framework and contingency planning during 2023 and it was agreed that further updates will continue to be provided in 2024.

2023 Committee effectiveness review

The Committee completed an internal effectiveness review for 2023. The purpose of this evaluation was mainly to give feedback to the new Audit and Risk Committee in supporting its effectiveness during 2024.

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

Overall, the results of the evaluation were positive. The Committee agreed that the Chair of the new Audit and Risk Committee will consider agenda content and length and frequency of meetings in 2024 to allow for sufficient oversight of all audit and risk matters in order to meet all of the Committee's responsibilities.

Geeta Gopalan
Chair of the Audit Committee
14 March 2024

Report of the Risk and Compliance Committee

Eric Daniels
Chair of the Risk and Compliance Committee

Members and attendance

Member	Meetings	Attendance
Eric Daniels (Chair)	3/3	100%
Geeta Gopalan	3/3	100%
Helen Beck	3/3	100%

On behalf of the Board, I am pleased to present the Report of the Risk and Compliance Committee for the year ended 31 December 2023. This will be the final year in which we report against the Risk and Compliance Committee as we will being presenting a Report on behalf of the newly formed Audit & Risk Committee in next year's Annual Report.

The Committee met three times in 2023 to carry out its role of monitoring and reviewing risk for the Group, including the nature and extent of principal and emerging risks against an uncertain macro environment. In addition to formal meetings, the Committee also received regular reports and updates on overall credit performance. For in-depth information relating to the Group's approach to risk and identification of principal and emerging risks for 2023, please refer to the Strategic Report on pages 55 to 63.

Key highlights for 2023

The unpredictability of the macro environment in 2023, which will continue into 2024, posed many challenges for us. The Committee's work was varied and included, but was not limited to, the following:

- Overseeing a more prudent approach to originations, in both the UK and the US, and agreeing to changes in credit strategy to enable fast and effective change in an increasingly volatile environment. Portfolios have been generally resilient and within target despite the challenging environment.
- Receiving regular updates and closely monitoring the external environment to look ahead at indicators of major change and assessing risk in relation to inflation and rising interest rates, including the impact of inflation on SMEs.
- Receiving updates on funding, credit reputation and conduct and operational key risks, and emerging risks including ESG and generative AI.
- Actively applying scrutiny to technology, information security and data-related risks, and closely monitoring mitigation plans which has led to positive progress and reduction in technology risk exposure.
- Monitoring the risks associated with FlexiPay as a new product.
- Approving amendments to the Group risk appetite and Enterprise Risk Management Framework which included the addition of technology risk as a key risk (moving it from a level 1 risk under operational risk).
- Approval of creation of joint Audit & Risk Committee effective 1 January 2024.

All of the Committee's work this year has been against an economic backdrop that could, if not monitored carefully, impact the execution of our strategy, so our work has been extremely focused to enable us to support the Board and ensure commitment to the strategic plan whilst remaining mindful of increased need for agility and precision when identifying, managing and mitigating risks that affect our business. In particular, I am happy with the solid credit performance of both the UK and US loan books throughout 2023, notwithstanding the challenging macro, our proven ability to deploy fast and effective change to our credit strategy to navigate a volatile environment and the attention to our borrowers demonstrated by our collections team.

In summary, I have been pleased with the continued development of the Group's risk management capabilities and overall controls and remain confident and optimistic about the Group's ability to successfully navigate a continued uncertain and volatile economic environment in 2024.

2024 risk-related priorities for the joint Audit & Risk Committee

- Continue to review the Company's key and emerging risks, especially technology and cyber risks, paying close attention to the macro environment in a more volatile environment than originally anticipated for 2023, with focus on inflation, consumption, interest rates and geopolitical tension.
- Focus on the risks inherent in structural changes in the Group's medium-term plan and managing FlexiPay credit lines and, in particular, oversee an enhanced balance sheet management approach.
- Continue to review the ERMF, and ensure it remains appropriate and effective for all stages of development of the Group's business.
- As the Group continues to embrace new products and increased automation, the Committee will monitor the associated risks as they scale as well as the execution risk as the business moves from a focus on one product to a number of different products.

Role of the Committee

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

Progress on actions from the 2022 effectiveness review

Feedback from the 2022 effectiveness review indicated a desire for management to continue to enhance the quality of papers, which it did. Paper quality and content had improved in 2023 and this will continue to evolve in 2024, particularly with the newly formed Audit & Risk Committee. The feedback also highlighted that the Committee wished to have more focus on funding risk and Consumer Duty. Funding risk was reviewed at each meeting in 2023 and the Committee received an update on Consumer Duty via the Audit Committee meeting in February 2023.

2023 Committee effectiveness evaluation

An effectiveness review of the Committee's performance was completed at the end of the year. The purpose of this evaluation was mainly to give feedback to the new Audit & Risk Committee in supporting its effectiveness during 2024. The review comprised an extensive questionnaire that evaluated the Committee's overall performance, composition and set-up and, importantly, the work of the Committee, including its role in reviewing and challenging the Group's control, risk management and compliance systems and appetite for risk. The questionnaire was completed by members of the Committee, the Company Secretary and the CRO.

Overall, the results of the evaluation were positive and feedback indicated that the Committee is functioning very effectively. The Committee agreed that the Chair of the new Audit & Risk Committee will consider agenda content and length and frequency of meetings in 2024 to allow for sufficient balance and oversight of all audit and risk matters in order to meet all of the Committee's responsibilities.

In addition to the Committee's own effectiveness review, the Board also evaluated its oversight of risk as part of its effectiveness review. All members of the Board were satisfied that the Board has sufficient focus on risk and risk management as it pertains to the Group's strategy and that a framework of prudent and effective controls was in place which enabled risk to be assessed and managed appropriately. For further information on the outcomes of the annual Board evaluation, please see page 80.

Eric Daniels
Chair of the Risk and Compliance Committee
14 March 2024

Report of the ESG Committee

Andrew Learoyd
Chair of the ESG Committee

Members and attendance

Member	Meetings	Attendance
Andrew Learoyd (Chair)	3/3	100%
Matthew King	3/3	100%
Neil Rimer	2/3	67%
Helen Beck	2/3	67%

On behalf of the Board, I am pleased to present the ESG Committee's Report for the year ended 31 December 2023. The Committee met three times this year and instituted a quarterly reporting process to track progress of ESG activities. The Committee was pleased that the overwhelming majority of the 2023 ESG framework goals were completed to its satisfaction and believes that the level of ambition and goals set for 2024 is appropriate.

In 2023, the Company made good progress in delivering against its short-term objectives and clarified the steps to achieve its medium and longer term goals across each of its key pillars – Environmental, Social Impact, DEI and Governance. We took steps to better understand the ESG landscape in comparison to our peers and we directed the publication of various ESG policy statements to increase the availability of information for our stakeholders.

On climate and the environment, we are encouraged by the work undertaken to develop a roadmap to implement closer alignment and consistency with TCFD disclosure recommendations over the next two years. We are excited to see in this Annual Report the Company's first full emissions reported, including Scope 3 – Category 15 financed emissions. We appreciate the potential challenges and opportunities that a transition to a lower carbon future brings for the Company, its small business customers and other stakeholders, and we look forward to continued progress as we learn more from this data and engage with the wider industry in this area. The Committee participated in ESG training, including modules on climate risk and TCFD, and Matthew King continued his role as champion for climate-related activities.

On DEI and Social Impact, the Committee continued to be impressed with the level of engagement of the various employee "Circler Groups", which reflects the strong culture and values at Funding Circle.

On DEI, in 2023 we were pleased to see strong and stable results across our key people and DEI metrics: engagement, recommend and belonging, and were delighted to be recognised by external awards. In 2024, we will report our lowest gender pay gap ratio. The Committee continues to focus on diversity at senior levels of the Company and continues to challenge senior management to identify where improvements can be made to demonstrate progress at these levels.

We were pleased to renew the partnership with Hatch to support underserved social entrepreneurs and the launch of the partnership with Thrive Mental Wellbeing to support the mental health of SME entrepreneurs and their employees in the UK. It was particularly encouraging to see increased Circler utilisation of impact days from 124 in 2022 to 225 in 2023, which were used over a wide variety of great causes including over 55 UK based Circlers joining our partner Sage working with a conservation trust at Horsenden Hill in London.

Finally, the Committee commends the 135 Circlers in the US team for contributing time and effort to build and deliver water purification assistance through Wine to Water, with a participation rate of 70%.

Key activities for 2024

- Continue to progress environmental strategy towards net zero ambition by 2050 and stretch target of operational net zero by 2030, with a goal to consider setting science-based targets, aligning with the Science Based Targets initiative ("SBTi").
- Continue to implement the risk roadmap for closer alignment and consistency with TCFD recommendations.
- Prepare for UK introduction of ISSB/IFRS S1, S2; and development of transition Plan.
- Continue to develop and support our culture and being a great place to work, building on our strong foundations for engagement and DEI.

Helen Beck continued with her role as Workforce Engagement Non-Executive Director and engaged with Circlers across the Group on a number of projects throughout the year including informal lunch and coffee events. These provided an open forum to gain Circler insight on strategy, organisational design around new products, the impact of the economic environment and other issues of importance to Circlers, which Helen then fed back to the Board.

For further information relating to the duties and responsibilities of each Committee, a copy of the Terms of Reference can be found on our website here: https://corporate.fundingcircle.com/who-we-are/corporate-governance/board-committees/. For more detailed information on the Group's ESG framework, TCFD disclosures, environmental impact and other ESG initiatives please see the Environment, social and governance section of our Strategic Report on page 22.

Andrew Learoyd
Chair of the ESG Committee
14 March 2024

Directors' remuneration report

Helen Beck
Chair of the Remuneration Committee

Members and attendance

Member	Meetings	Attendance
Helen Beck (Chair)	5/5	100%
Andrew Learoyd	5/5	100%
Matthew King	5/5	100%

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2023. I would like to thank the other Committee members and the Circlers who have supported the Committee this year.

Review of 2023 and Executive Directors' Remuneration

Despite continued economic uncertainty and volatility in 2023, Funding Circle has achieved financial performance in line with expectations. The team has again demonstrated its ability to respond quickly to a changing environment, with strong participation in the third iteration of the UK government Recovery Loan Scheme and responding to challenges in the US market by becoming the only fintech to be awarded, subject to final approval, one of three new SBA 7(a) licences. Good progress has been made against each of our three strategic pillars with the UK Loans business now profitable and further progress made towards our multi-product vision, enabling SMEs to borrow, pay and spend, with the scaling of FlexiPay and the launch of our business card.

Given the strategic importance of FlexiPay and to provide more appropriate alignment with our medium-term plan, in 2023 we moved the weighting of the financial measures to 60% of the annual bonus and the strategic/non-financial measures to 40%, which included FlexiPay performance. Financial performance was assessed by reference to the UK and US Loans businesses, to align with the guidance given to the market in 2023, and to ensure that the annual bonus did not inadvertently discourage the necessary strategic investment in FlexiPay during the year. The overall outcome for the two financial metrics was near target, reflecting the robust performance of the business in a challenging economic environment and a prudent approach to credit risk management, with the team making fast and effective changes to credit strategy in an increasingly volatile environment. On the strategic element, FlexiPay scaled significantly over the year and, while income was behind budget, overall AEBITDA targets and strategic milestones were achieved, senior debt funding is in place, and credit performance remained stable. More broadly, loan returns remain robust and attractive, while new customer segments continued to deliver growth in both the UK and the US. Employee engagement and advocacy remain strong at 68%, while 84% would recommend Funding Circle as a great place to work. Good progress was also made across the control environment and against ESG goals.

In this overall performance context, the outcome of the bonus assessment against the agreed targets was 48.9% of maximum. The Committee considers this an appropriate reflection of the overall performance delivered for stakeholders, and therefore no discretion was applied. 40% of the bonus payout will be deferred into shares for three years, in keeping with our Remuneration Policy.

The first Restricted Share award granted to Oliver White under the Policy adopted in 2021 will vest in March 2024. As the Committee agreed that both the performance-based 3-year average operating income underpin set in 2021 and the qualitative underpins were met, the Committee determined that the award should vest in full and that no discretion should be applied.

Remuneration policy review

With 2023 being the last year of our current Remuneration Policy, we undertook a detailed Policy review during the year. We consulted with our largest shareholders, covering c.80% of our issued share capital, and we were grateful for all of the feedback received which helped inform the proposed Policy design.

The Committee reviewed a full range of alternative incentive structures but, after careful consideration, determined that the current structure approved by over 98% of our shareholders in 2021, which consists of base salary, bonus, and Restricted Share awards, remains most appropriate at this time. In particular, we agreed that the use of Restricted Shares continues to align with our remuneration philosophy of ensuring that senior management are significant share owners, promoting good stewardship and the creation of long-term stakeholder value as the business continues to mature. It also ensures that Executive Directors remain aligned with the reward structure for other senior Circlers.

Under the current Policy, the maximum Restricted Share award was set at a market competitive level of 133% and 100% of salary, for the CEO and CFO respectively, which applied to the initial awards granted under the Policy in 2021. However, the Policy also required that the maximum number of shares granted in subsequent years be fixed at the same number awarded in that first grant, limiting the ability of the Committee to set award values each year that appropriately reflect the relevant context at the time (including reflecting business performance, market data, and the share price). Under the proposed Policy, the maximum award level will be unchanged (at 133% and 100% of salary for the CEO and CFO, respectively) but in line with standard market practice the Committee will retain full discretion to adjust the size of awards at the time of grant each year to reflect prevailing circumstances.

The new Policy, which is set out on pages 98 to 105 of this report will be submitted for shareholder approval at the 2024 AGM.

Executive Director remuneration arrangements for 2024

With effect from 1 March 2024, Lisa Jacobs and Oliver White will both receive a salary increase of 2.5%, which is significantly below the Circler salary review budget of 5% for 2024. Initially, after considering several factors, including internal relativities and external comparative data, the Committee had proposed an increase of 4% for Lisa Jacobs (her salary being lower quartile in the FTSE small-cap), but Lisa waived any increase for 2024 above 2.5% to be in line with the proposed increases for Oliver White and to reflect the focus on cost management and profitability in 2024. Lisa's bonus opportunity and Restricted Share award will be based on her salary post-waiver.

In line with 2023, we will base the annual bonus at least 60% on financial measures, which will continue to reflect income and profit measures, and up to 40% on strategic/ non-financial measures.

As described above, the maximum Restricted Share award under the proposed Policy will continue to be 133% and 100% of salary, for the CEO and CFO respectively. In determining the intended approach to award sizes for 2024, the Committee carefully considered several factors. We noted that as a result of the 'fixed number of shares' grant model in the 2021 Policy described above, the actual face value of awards made to Executive Directors during 2022 and 2023 fell substantially below the market competitive level (for example, 2023 awards had a grant value of c.47% and c.35% of salary for the CEO and CFO, respectively – see page 111), and the level of equity granted to date. The Committee also reflected on investor expectations around safeguarding against the potential for 'windfall gains' in scenarios where long-term share awards are granted following a period of share price decline. Considering the factors above, the Committee will grant awards at a level below the Policy maximum of 133% and 100% of salary, for the CEO and CFO respectively, which we believe strikes an appropriate balance between the perspectives above. The 2024 awards will be granted following shareholder approval of the Policy at the AGM in May. We retain discretion to ensure the actual grant reflects the latest available information at that time.

Vesting of the Restricted Share awards will be subject to an assessment of financial and non-financial underpins, as set out on page 115. The Committee retains the discretion to make any adjustments to vesting it deems necessary.

Remuneration arrangements for Circlers

During 2023, we evolved our remuneration arrangements for Circlers, introducing personal performance to our Group bonus for the first time to bring further alignment with the Executive Director bonus framework. In a continuing challenging environment, I wish to thank all our Circlers for their dedication and commitment over the course of 2023. The Group annual bonus for 2023 is being awarded at 100% of target in aggregate, with payment being based on AEBITDA performance.

In 2023 we also made some changes to the Share Incentive Plan (SIP), removing the free share element but increasing the matched element to 2:1 (from 1:1). We also introduced a permanent £1,000 bonus for junior Circlers and continued to keep pace with the 'Real Living Wage' increasing the salary of any Circlers whose salary was below the threshold in 2023.

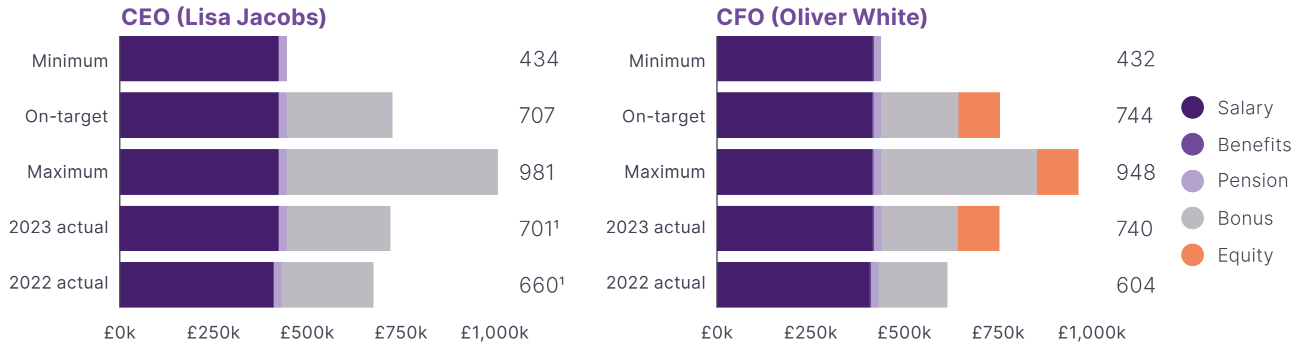
Conclusion

On behalf of the Remuneration Committee, I would like to thank our shareholders for their support in 2023, including those who engaged in our Remuneration Policy review. We were delighted with the support received from shareholders at the 2023 AGM and we hope to continue to receive your support at our 2024 AGM, where I will be available to respond to any questions on this report or in relation to any of the Committee's activities.

Helen Beck
Chair of the Remuneration Committee
14 March 2024

At a glance – Remuneration outcome for 2023

The charts below show the potential 2023 remuneration opportunity and actual achievement.



1. Lisa Jacobs was appointed 1 January 2022; she is not eligible to have any Restricted Shares vesting until 2025.

2023 annual bonus outturn

The chart below shows the outcome of the 2023 annual bonus. A summary of overall business performance is on pages 109 to 110.

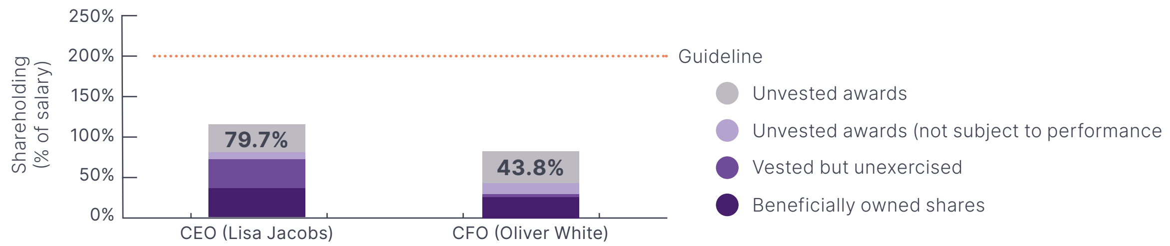
Performance measure	Weighting	Threshold 0% payout	Target 50% payout	Maximum 100% payout	Outcome (% of maximum)
Loans AEBITDA	30%	£0m (Actual £10.7m)	£10.6m	£15.9m	50.9%
Loans Total Income	30%	£137.5m (Actual £153.9m)	£162m	£186.5m	33.5%
Strategic/non-financial (including FlexiPay)	40%	See pages 109 to 110			59.0%
				Total (CEO)	**48.9%**
				Total (CFO)	**48.9%**

Payments for 2023 cover a time period of 5 years

Element	Maximum opportunity for 2023	Awarded for 2023	2023	2024	2025	2026	2027
Salary	N/A	CEO: £414k CFO: £410k	Salary, benefits and pension paid in cash or contributions				
Pension	5% of salary	5% of salary					
Benefits	In line with other Circlers	In line with other Circlers					
Annual bonus	CEO: 133% of salary CFO: 100% of salary	65.1% of salary 48.9% of salary	60% paid in cash	40% deferred into shares for 3 years			
Restricted shares	CEO: 133% of salary[1] CFO: 100% of salary[1]	46.7% of salary 35.5% of salary	3-year vesting period (underpins tested following completion of vesting period)			Post-vesting holding period of 2-years	

1. Our 2021 Remuneration Policy set the award size as a fixed number of shares which were calculated based on such number of shares as have a market value at the grant date of the awards in respect of the 2021 financial year equal to 133% of salary for the CEO and 100% of salary for the CFO.

Shareholding guidelines for Executive Directors as at 31 December 2023

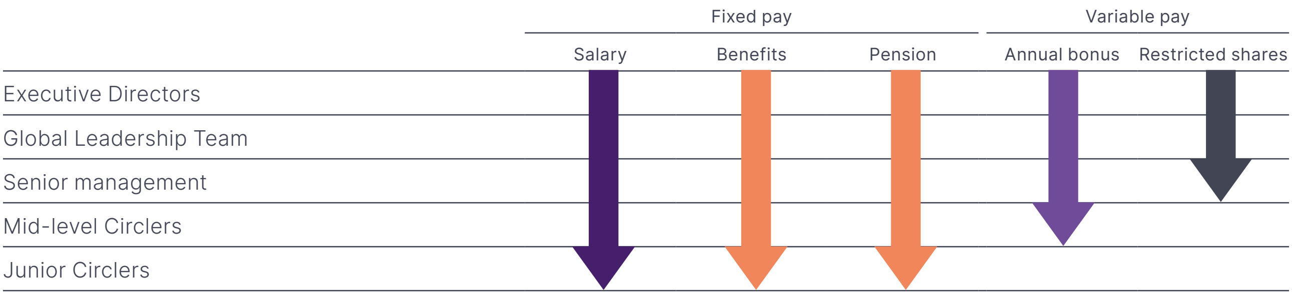


Shareholding as a % of salary is based on the three month average share price to 31 December 2023 of 37.5p. Unvested awards subject to performance conditions are not taken into account in the assessment of the shareholding until such time as they vest.

At a glance – Revised policy overview and implementation for 2024

Element of Remuneration Policy	Current Policy	Proposed changes in Policy and rationale	Implementation in 2024
Salary	› Reviewed annually in March. › Salaries take account of the external market and the overall employee context. › No prescribed maximum salary level or salary increases.	Proposed changes: › No changes. Rationale: › The Committee believes that these elements of the Remuneration Policy remain fit-for-purpose and align with stakeholder interests.	As of 1 March 2024, Executive Director salaries are as follows: › £424,350 (+2.5%) for the CEO. › £420,250 (+2.5%) for the CFO.
Benefits	› Executive Directors receive the same benefits as other UK Circlers which currently include, but are not limited to, life assurance and private medical insurance.		Benefits offered to Executive Directors will be in line with those available to other employees in the Group.
Pension	› Maximum contribution is in line with contribution to other Circlers in the Group, which is currently 5% of salary. › Individuals are entitled to receive some or all of their pension allowance as cash in lieu of pension contribution.		Executive Directors will receive 5% of salary in a combination of contributions into their pension and cash in lieu of pension contributions.
Annual bonus	A maximum opportunity in respect of any financial year of: › CEO: 133% of salary. › Other Executive Directors: 100% of salary. 40% of any bonus earned will be deferred into Funding Circle shares and will cliff vest after 3 years.		Maximum opportunities of: › 133% of salary for the CEO. › 100% of salary for the CFO.
Restricted share awards	› The maximum number of shares that was awarded in respect of each financial year was calculated based on such number of shares as have a market value at the grant date of the awards in respect of the 2021 financial year equal to 133% of salary for the CEO and 100% of salary for the CFO.	Proposed changes: › The maximum award levels granted in respect of a financial year will be worth 133% of salary for the CEO and 100% of salary for the CFO. Rationale: › The previous policy resulted in formulaic changes to the value of the awards granted, and restricted the ability for the Remuneration Committee to use their discretion to reward Executive Directors appropriately. We will communicate in advance of each grant what the proposed sizes will be.	Award sizes of: › Below 133% of salary for the CEO. › Below 100% of salary for the CFO. The Committee determined that the award sizes for 2024 would be below the policy limit, taking into consideration the share price performance over the previous year, the competitiveness of the total remuneration package against appropriate benchmarks, and expectations around safeguarding against potential 'windfall gains'.

Alignment with Circlers



Directors' remuneration report continued

Remuneration Policy

The Remuneration Policy, as set out in this section, applies to the roles of Chair, Executive Director and Non-Executive Director. If approved by shareholders in a binding vote at the 2024 AGM in May, the Remuneration Policy will apply for a maximum of three years from the AGM.

Executive Directors' remuneration

Element of remuneration	Key features	Purpose and link to strategy	Maximum opportunity	Performance measures
Salary	Normally reviewed annually in March. Salaries take account of the external market and the overall employee context.	Supports the attraction and retention of the best talent.	No prescribed maximum salary level or salary increases. Account will be taken of increases applied to employees as a whole when determining salary increases. Committee retains the discretion to award higher increases where it considers it appropriate, such as, but not limited to: › where an Executive Director has had a change in scope or responsibility; › an Executive Director's development or performance in role (e.g. to align a newly appointed Executive Director's salary with the market over time); › where there is a significant change in the size and/or complexity of the Company; and › where salary is considered to fall behind the market competitive range for similar roles.	n/a
Benefits	Executive Directors' benefits currently include, but are not limited to, life assurance and private medical insurance. The Committee may determine that Executive Directors should receive additional benefits if appropriate, taking into account typical market practice and practice throughout the Group.	Market competitive (and cost effective) benefits provide reassurance and risk mitigation and support retention of talent.	The value of benefits is not capped as it is determined by the cost to the Company, which may vary. Benefits offered to Executive Directors are broadly in line with those available to other employees in the Group.	n/a
Pension	Executive Directors are entitled to receive employer contributions to the Funding Circle Ltd defined contribution pension plan. Individuals are entitled to receive some or all of their pension allowance as cash in lieu of pension contribution.	To provide retirement benefits for Executive Directors.	Maximum contribution in line with contribution to other employees in the Group, which is currently 5% of salary.	n/a
All-employee plans	Executive Directors are eligible to participate in HMRC tax-efficient plans that are available to all employees. Funding Circle currently operates a Share Incentive Plan.	To encourage share ownership and alignment with shareholders.	Participation levels are in line with HMRC limits.	n/a

Element of remuneration	Key features	Purpose and link to strategy	Maximum opportunity	Performance measures
Annual bonus	Awards are based on performance (typically measured over a financial year) against key performance measures. 40% of any bonus earned will normally be deferred into shares for three years. The Executive Directors may, at the discretion of the Committee, receive dividend equivalents on the deferred shares. Malus and clawback provisions apply. The Committee has discretion to amend the pay-out should any formulaic outcome not reflect the Committee's assessment of overall business performance, the performance of the individual, or the experience of shareholders or other stakeholders over the performance period.	To motivate and reward the achievement of the Group's annual financial and strategic targets.	A maximum opportunity in respect of any financial year of: › CEO: 133% of salary. › Other Executive Directors: 100% of salary.	Measures and targets will normally be set annually by the Committee and will be in line with Funding Circle's strategy. A mix of both financial and non-financial measures will typically be used, with at least 60% of the annual bonus normally based on financial measures. The target annual bonus is 50% of maximum opportunity and 100% of maximum payable for maximum performance. Typically, 0% will be payable for threshold performance. Details of pay-outs between these levels will be disclosed in the relevant Directors' Remuneration Report.
Restricted Share awards	Executive Directors are granted Restricted Share awards with a three-year vesting period, subject to a discretionary assessment of performance underpins. Following the end of the vesting period, the awards will be subject to a two-year holding period. Awards may be granted in the form of conditional share awards or nil-cost options. The Executive Directors may, at the discretion of the Committee, receive dividend equivalents on vested shares. The awards are subject to malus and clawback provisions.	Align Executive Directors with shareholders' interests and promote stewardship and good governance over a long time horizon.	A Restricted Share award may be granted to an Executive Director in respect of each financial year. The maximum award levels granted in respect of a financial year will be worth 133% of salary for the CEO and 100% of the salary for the CFO. Prior to each grant, the Committee will consider the size of grant to be awarded taking into account the share price at the time of grant as well as other factors such as appropriate market data.	The vesting of the Restricted Share awards will be subject to underpins. The underpins applying to each award will be determined by the Committee each year but may include measures related to key financial, strategic, governance, or ESG metrics. Should any of the underpins not be met, the Committee would consider whether a discretionary reduction in the vesting of awards is required. The specific underpins will be disclosed in the relevant Annual Report on Remuneration. Additionally, at the end of the three-year vesting period, the Committee, in its absolute discretion, will assess the overall vesting level of the award to ensure that outcomes accurately reflect the Committee's assessment of overall business performance, the performance of the individual, or the experience of shareholders or other stakeholders over the vesting period.

Remuneration Policy continued

Executive Directors' remuneration continued

Element of remuneration	Key features	Purpose and link to strategy	Maximum opportunity	Performance measures
In-post shareholding requirement	Executive Directors are expected to build and maintain a holding of shares in the Company.	Supports our ownership mentality focus, promotes stewardship and helps align management with shareholders.	Minimum shareholding requirement, to be satisfied within five years of appointment, of no less than 200% of salary for all Executive Directors. If any Executive Director does not meet the requirement, subject to consideration by the Committee of the factors at the time, they will be expected to retain all of the net of tax number of shares vesting under any of the Company's discretionary share incentive arrangements until the requirement is met.	n/a
Post-exit shareholding requirement	Executive Directors are expected to retain a proportion of their shareholding for a two year period after they have left Funding Circle.	To reinforce long-term alignment of Executive Directors' interests with those of shareholders post cessation of employment.	Minimum post-exit shareholding requirement of "guideline shares" equal to 200% of salary for all Executive Directors or the actual shareholding on departure, if lower. "Guideline shares" do not include shares which the Executive Director held at IPO, purchased in the market directly or acquired pursuant to the exercise of pre-IPO awards.	n/a

Performance measure selection

The measures used under the annual bonus plan will be selected annually to reflect the Group's key financial and strategic objectives for the year. In setting performance targets, the Committee takes into account a range of factors including business forecasts, prior year performance, degree of stretch against the performance targets in the business plan, market conditions and expectations.

Restricted Share awards will be subject to performance underpins. Underpins are chosen to ensure that the overall business health is strong, individual performance is adequate, and stakeholder experience is reflected. The Committee retains the ability to adjust any underpin if events occur which cause it to determine that an adjustment or amendment is appropriate so that the underpins achieve their original purpose.

Malus and clawback policy

Malus and clawback provisions apply to annual bonus awards, deferred bonus awards and Restricted Share awards over the following time periods:

	Malus	Clawback
Annual bonus	To such time as payment is made.	Up to two years following payment.
Deferred bonus awards	To such time as the award vests.	No clawback provisions apply (as malus provisions apply for three years from the grant date).
Restricted share awards	To such time as the award vests.	Up to two years following vesting.

Malus and clawback may apply in the following circumstances:

- a material misstatement of the audited accounts of a member of the Group;
- an error in assessing a performance measure or underpin, or an error in the information or assumptions on which awards were granted, vest or released;
- a material failure of risk management in any member of the Group or a relevant business unit;
- serious reputational damage to any member of the Group or a relevant business unit; or
- serious misconduct or material error on the part of the participant.

Discretions reserved in administering incentive awards

The Committee will administer the annual bonus, deferred bonus awards, Restricted Share awards and Share Incentive Plan awards in accordance with the relevant plan rules and the above Remuneration Policy table. The Committee retains certain discretions, consistent with market practice, in relation to the administration of the awards including:

- the determination of performance measures, underpins and targets and resultant vesting and pay-out levels;
- the ability to amend or substitute a performance measure or underpin if one or more events occur which cause the Committee to reasonably consider that an amended or substituted performance measure or underpin would be more appropriate and would not be materially less difficult to satisfy than originally intended;
- the determination of the treatment of individuals who leave employment, based on the relevant plan rules, and the treatment of the awards on exceptional events, such as a change of control of the Company; and
- the ability to make adjustments to existing deferred bonus awards, Restricted Share awards and Share Incentive Plan awards in certain circumstances (e.g. rights issues or corporate restructurings).

Directors' remuneration report continued

Remuneration Policy continued

Illustrations of the application of the Remuneration Policy in 2024

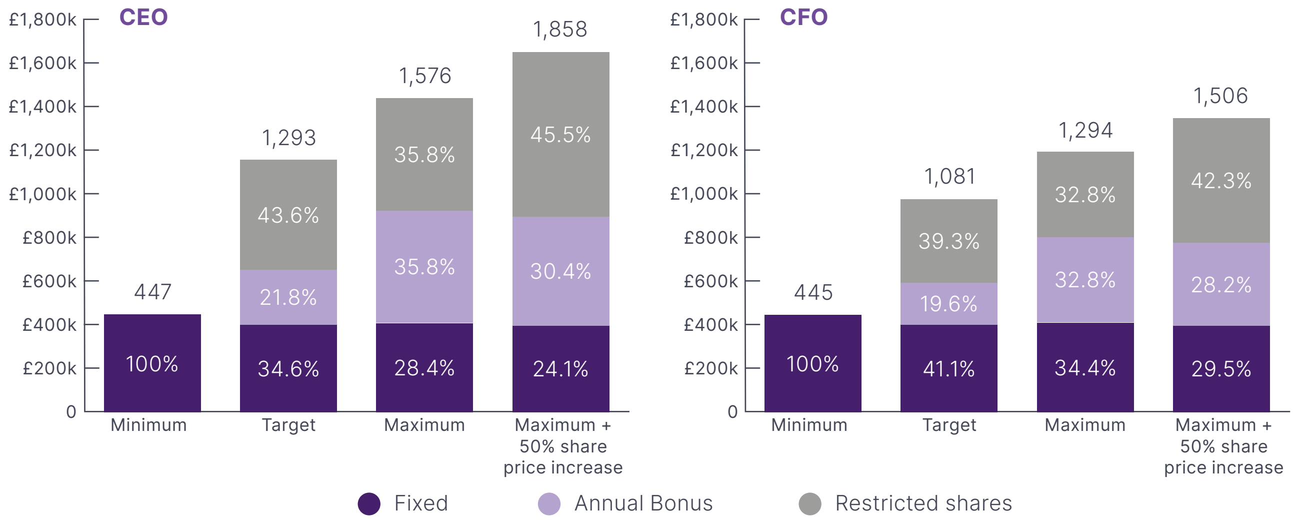


Illustration assumptions

Element of pay	Minimum	Target	Maximum	Maximum + 50% share price appreciation
Fixed remuneration: › Base salary – effective 1 March 2024 › Benefits – in line with the value of 2023 benefits disclosed in the single figure table › Pension – 5% of salary				
Annual bonus	No payout	50% of maximum (target payout)	Maximum payout	
Restricted shares	No vesting	Assumes full vesting of the 2024 grants. Have shown the Policy maximum level which for the CEO is 133% of salary and for the CFO is up to 100% of salary. In 2024 the Committee will grant below the Policy maximum levels.		Grant value multiplied by 1.5

Legacy arrangements

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy set out above came into effect provided that the terms of the payment were consistent with any shareholder-approved Directors' Remuneration Policy in force at the time they were agreed or (ii) at a time when the relevant individual was not a Director of the Company or other person to whom this policy applies and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company or other such person. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Executive Directors' service contracts

The Executive Directors' service contracts are on a rolling basis and are terminable by either the Company or the individual on 12 months' notice for the CEO and six months' notice for the CFO. Notice periods for Executive Directors will not exceed 12 months from either party.

	Date of service agreement
Lisa Jacobs, CEO	1 January 2022
Oliver White	10 June 2020

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below.

	Policy
Payment in lieu of notice	The Committee has discretion to make a payment in lieu of notice based on salary for the unexpired period of notice. The Company may make such payment in monthly instalments and it will be subject to mitigation.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to pay a bonus in full or in part will be dependent on a number of factors, including the circumstances of the Executive Director's departure and their contribution to the business during the performance period in question. Any bonus earned will normally be pro-rated for time in service during the performance period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances) and in the normal manner. Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
Deferred bonus award	The extent to which any unvested awards will vest will be determined in accordance with the Deferred Bonus Plan rules. If an Executive Director leaves for any reason (other than being dismissed for cause) during the deferral period then unvested awards will continue and vest at the normal vesting date. In exceptional circumstances (including if a participant dies), the Committee may decide that the Executive Director's unvested award will vest and be released early at the date of cessation of employment, in which case the Committee has discretion to apply time pro rating in limited circumstances.
Restricted Share awards	The extent to which any unvested awards will vest will be determined in accordance with the share plan rules. Unvested awards will normally lapse on cessation of employment. However, unless a participant is dismissed for cause, the Committee has discretion to determine that the unvested awards will continue and remain capable of vesting at the normal vesting date. To the extent that the awards vest, a two-year holding period would then normally apply. In exceptional circumstances (including if a participant dies), the Committee may decide that the Executive Director's awards will vest and be released early at the date of cessation of employment or at some other time (e.g. at the vesting date). In either case, vesting will depend on the extent to which the performance underpins have been satisfied and will be subject to a pro rata reduction for time served during the vesting period (although the Committee has discretion to disapply time pro rating if the circumstances warrant it).
Change of control	Deferred bonus awards and Restricted Share awards will vest early in the event of a takeover, merger or other relevant corporate event. Deferred bonus awards will typically vest in full. As regards Restricted Share awards, vesting will depend on the extent to which the performance underpins have been satisfied, with the Committee taking into account relevant factors at the time, and will be subject to a pro rata reduction for time served during the vesting period (although the Committee has discretion to disapply time pro rating if the circumstances warrant it). Alternatively, the Committee may permit deferred bonus awards and Restricted Share awards to be exchanged for equivalent awards of shares in a different company (including the acquiring company).
Other payments	Executive Directors will be entitled to payment for accrued holiday. Awards under the Share Incentive Plan may be released in the event of cessation of employment or change of control in accordance with the plan rules. The Committee reserves the right to make any other payments in connection with a Directors' cessation of office or employment where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and for the Directors' legal and/or professional advice fees in connection with his cessation of office or employment. Incidental expenses may also be payable where appropriate.

Remuneration Policy continued

Recruitment policy

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment of high calibre executives to strengthen the management team and secure the skill sets necessary to deliver the Group's strategic aims.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the Remuneration Policy as set out above. The Committee may include other elements of pay which it considers appropriate, however, this discretion is capped and is subject to the principles and the limits referred to below. The key terms and rationale for any such element would be disclosed in the Directors' Remuneration Report for the relevant year.

	Policy
Salary	Salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include a provision for future increases up to a market rate, in line with increased experience and responsibilities, subject to good performance, where it is considered appropriate.
Buy-out awards	It may be necessary to make additional awards in connection with the recruitment to buy-out remuneration terms forfeited by the individual on leaving a previous employer if it considers the cost can be justified and it is in the best interests of the Company. Buy-out awards are not subject to a formal cap. The Committee will seek to make buy-outs subject to what are, in its opinion, comparable requirements in terms of service and performance. Where considered appropriate, buy-out awards will be liable to forfeiture or recovery provisions on early departure.
Maximum level of variable remuneration	The maximum level of variable remuneration which may be granted (excluding buy-out awards) will be 133% of salary for the annual bonus and up to 133% of salary for Restricted Share awards.
Other elements of remuneration	Other elements may be included in the following circumstances: › An interim appointment being made to fill an Executive Director role on a short-term basis. › If exceptional circumstances require that the Chair or a Non-Executive Director takes on an executive function on a short-term basis. › If an Executive Director is recruited at a time in the year when it would be inappropriate to provide an annual bonus or Restricted Share award for that year. Subject to the limit on variable remuneration set out above, the quantum in respect of the period employed during the year may be transferred to the subsequent year. › If the Executive Director is required to relocate, reasonable relocation, travel and subsistence payments may be provided (either via one-off or ongoing payments or benefits).

For an internal appointment, any legacy arrangements will either continue on their original terms or be adjusted to reflect the new appointment, as appropriate.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the variable remuneration limits referred to above, awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Fees payable to a newly appointed Chair or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Policy on external appointments

Executive Directors may hold external directorships and retain any fees for such directorships if the Board determines that such appointments do not cause any conflict of interest.

Non-Executive Directors' remuneration

Key features	Purpose and link to strategy
The fees paid to the Non-Executive Directors are determined by the Board as a whole. The Chair and the Non-Executive Directors are paid annual fees and do not participate in any of the Company's incentive arrangements or receive any pension provision or other benefits. Additional fees are payable for additional Board duties, including acting as Senior Independent Director and for chairing Committees. Additional fees may be paid in the exceptional event that Non-Executive Directors are required to commit substantial additional time above that normally expected for the role. The Non-Executive Directors are not entitled to any compensation on termination of their appointment. The Non-Executive Directors are entitled to reimbursement of reasonable expenses (including any associated tax liabilities). Overall fees paid to the Chair and Non-Executive Directors will remain within the limits set by the Company's Articles of Association.	Fees are set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees and to attract and retain Non-Executive Directors of the highest calibre with relevant commercial and other experience.

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

Remuneration Policy for Circlers

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

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

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

The key elements to the incentive arrangements are:

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

Equity awarded to Circlers, including the existing Global Leadership Team (other than the Executive Directors), is subject to continued employment for the two years following the grant date but is not otherwise normally subject to performance conditions. Our workforce engagement director (Helen Beck) frequently holds workforce engagement sessions with Circlers. A range of topics are discussed.

Alignment between Executive and Circlers' remuneration

The Executive Directors' Policy was designed to align Circler and Executive pay. The main differences between how Executive Directors and Circlers are remunerated are the longer time periods (vesting, holding and deferral) and tougher performance criteria.

Annual report on remuneration

This part of the report sets out how the current Remuneration Policy has been applied in 2023 and how the Committee intends to apply the proposed Remuneration Policy in 2024. This part of the report will be subject to an advisory shareholder vote at the 2024 AGM.

Role of the Committee

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

How our remuneration is aligned with the principles of the code

Alignment to strategy and culture	› The design of remuneration at Funding Circle is aligned to our values, culture and strategy. › The annual bonus is based on financial and strategic performance promoting collective accountability and helps to align the Executive Directors' incentive structure with the wider Group. › Restricted Share awards fully align with our remuneration philosophy of ensuring that senior management are significant share owners, promoting good stewardship and incentivising Executive Directors to create long term value as the business continues to mature.
Clarity and simplicity	› Our Policy aligns the Executive Directors' pay with pay for other Circlers. › Our Policy is simple to understand for participants and shareholders and promotes long term stewardship.
Risk	› Our Policy appropriately balances fixed and variable pay as well as short- and long-term incentives. › Opportunities are set at a level which rewards performance at the same time as not unduly encouraging excessive risk taking. › The annual bonus and Restricted Shares are subject to malus and clawback provisions and the Committee has the discretion to adjust pay outcomes.
Proportionality	› A significant portion of the total remuneration opportunity for Executive Directors is variable pay. This variable pay is aligned to Company strategy through the choice of performance measures and the link to share price.
Predictability	› Our Policy is clear on the threshold, target and maximum levels of pay that Executives can earn. Notwithstanding that actual outcomes will vary based on the level of achievement and share price performance.

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

Committee composition

None of the members who have served on the Committee during the year had any personal interest in the matters decided by the Committee and they are all considered to be independent by the Company. The Company Secretary acted as Secretary to the Committee.

Committee members	Number of meetings attended
Helen Beck, Chair	5/5
Andrew Learoyd	5/5
Matthew King	5/5

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

2023 Committee workstreams

- determined the payout of the Executive Directors' 2022 annual bonus;
- approved the payout of the 2022 annual bonus for Circlers;
- approved the design of the 2023 annual bonus for Circlers and the equity plans;
- set the 2023 annual bonus targets for Executive Directors;

- set the 2023 Restricted Share Plan underpin and approved the grants for Executive Directors;
- approved reward decisions relating to members of the Global Leadership Team and reviewed Circler compensation;
- conducted a competitive tender process to appoint external advisers which resulted in Alvarez & Marsal being appointed; and
- conducted a comprehensive review of the Remuneration Policy, which included consultation with our shareholders, in preparation for its renewal at the 2024 AGM.

2024 Committee priorities

- approve the remuneration arrangements for the Global Leadership Team, including their equity grants and 2023 bonus outcomes;
- approve the design of the 2024 annual bonus for Circlers and the equity plans;
- set the 2024 annual bonus targets, ensuring they align with Funding Circle's strategy as well as its ESG priorities;
- set the 2024 Restricted Share Plan underpins and approve the grants for Executive Directors; and
- continue to monitor remuneration practices across the Company as a whole, keeping abreast of current and evolving market practice.

Committee effectiveness

The Committee undertook an effectiveness review in January 2024, whereby each Committee member and, by invitation, the Chief People Officer, completed a tailored questionnaire. The questionnaire covered topics such as the quality of the remuneration support provided to the Committee and the appropriateness of the remuneration policies and practices implemented in 2023. The positive scores and comments demonstrated that the Committee is working well.

External advisers

The Committee is satisfied that the advice it has received from its appointed adviser Alvarez & Marsal as remuneration consultants is independent, and that the engagement partner and team that have provided remuneration advice do not have connections with the Company that might impair their independence. Alvarez & Marsal was appointed by the Committee in 2023. Alvarez & Marsal is a member of the Remuneration Consultants Group and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration matters in the UK.

The fee paid to Alvarez & Marsal in 2023 in relation to advice provided to the Committee was £44,100. Alvarez & Marsal provide no other services to the Group. We also received advice from Ellason LLP in relation to the review of the 2022 Directors' Report on Remuneration and advice on Executive Director bonus design for 2023. The fee paid to Ellason LLP was £8,800.

Letters of appointment and service contracts

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

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

Annual report on remuneration continued

Shareholder voting

The Committee's resolutions at the Company's 2021 AGM (in respect of the Remuneration Policy) and the 2023 AGM (in respect of the Annual Report on Remuneration) received the following votes from shareholders:

	Annual Report on Remuneration (2023 AGM)		Remuneration Policy (2021 AGM)	
Number of votes				
Votes cast in favour	213,472,788	94.12%	226,078,928	98.17%
Votes cast against	13,130,080	5.79%	3,229,853	1.40%
Votes withheld	217,670	0.10%	977,804	0.43%
Total votes cast (including withheld)	226,820,538	100.00%	230,286,585	100.00%

Single total figure of remuneration (audited)

The following tables set out the aggregate emoluments earned by the Directors in the year ended 31 December 2023 and 2022 respectively.

2023	Salary and fees £000	Taxable benefits[1] £000	Pensions[2] £000	Bonus £000	Long-term incentives[3] £000	Total £000	Other	Total fixed £000	Total variable £000
Executive Directors									
Lisa Jacobs	**412**	**1**	**20**	**268**	**—**	**701**	**—**	**433**	**268**
Oliver White	**408**	**4**	**20**	**200**	**101**[4]	**733**	**—**	**432**	**301**
Non-Executive Directors									
Andrew Learoyd	**207**	**0**	**—**	**—**	**—**	**207**	**—**	**207**	**—**
Eric Daniels	**70**	**0**	**—**	**—**	**—**	**70**	**—**	**70**	**—**
Geeta Gopalan	**80**	**—**	**—**	**—**	**—**	**80**	**—**	**80**	**—**
Helen Beck	**70**	**—**	**—**	**—**	**—**	**70**	**—**	**70**	**—**
Matthew King	**70**	**—**	**—**	**—**	**—**	**70**	**—**	**70**	**—**
Samir Desai	**55**	**—**	**—**	**—**	**—**	**55**	**—**	**55**	**—**
Hendrik Nelis[5]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Neil Rimer[5]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2022									
Executive Directors									
Lisa Jacobs	400	2	20	239	—	661	—	422	239
Oliver White[6]	400	3	20	180	0	603	28[5]	451	180
Non-Executive Directors									
Andrew Learoyd	206	—	—	—	—	206	—	206	—
Eric Daniels	69	3	—	—	—	72	—	72	—
Geeta Gopalan	79	—	—	—	—	79	—	79	—
Helen Beck	69	—	—	—	—	69	—	69	—
Matthew King	67	—	—	—	—	67	—	67	—
Samir Desai	55					55		55	
Hendrik Nelis[5]	—	—	—	—	—	—	—	—	—
Neil Rimer[5]	—	—	—	—	—	—	—	—	—

1. Taxable benefits for Executive Directors principally include private medical cover and life assurance cover. Taxable benefits for Non-Executive Directors relate to reimbursement of travel to the workplace. The Company ensures that the Non-Executive Directors are kept whole by settling the expense and any related tax. The figures shown include the cost of the taxable benefit plus the related tax charge.
2. Executive Directors were eligible for a 5% of base salary pension contribution.
3. No nil-cost options vested under the 2020 LTIP as neither EPS nor Fee Income targets were achieved.
4. Shows the value of the vesting of the 2021 Restricted Share award based on a 3-month average share price to 31 December 2023 of 37.5p. This award was granted on 19 May 2021 based on a share price of 148.5p. The proportion of the vested value which is attributable to share price growth is therefore zero. The Remuneration Committee did not exercise discretion in respect of this share price depreciation.
5. Hendrik Nelis and Neil Rimer, who are not independent Non-Executive Directors, have waived their entitlement to a fee.
6. Oliver White took on the interim US Managing Director role from 21 September 2022 in addition to his usual responsibilities. Funding Circle covered the costs of working in the US such as accommodation, flights, and car hire, however, he was paid an additional payment of £27,500 to compensate him for the material additional work and responsibilities undertaken. This additional allowance was in keeping with our shareholder-approved Remuneration Policy, under which: "The Committee may determine that Executive Directors should receive additional reasonable benefits if appropriate, taking into account typical market practice and practice throughout the Group". A one-off payment (which is not pensionable nor bonusable) was preferred to an uplift in salary due to the multiplicative impact of salary on total remuneration and the interim nature of the appointment.

2023 annual bonus

The maximum opportunities for 2023 were 133% of salary for the CEO and 100% of salary for the CFO. As announced in last year's Directors' Remuneration Report, given the strategic importance of FlexiPay and to provide more appropriate alignment with our medium-term plan, we moved the weighting of the financial measures to 60% of the annual bonus measures and the strategic/non-financial measures (including FlexiPay) to 40%. For the financial measures, performance was assessed by reference to the UK and US Loans businesses only, in order to ensure that the Group annual bonus did not inadvertently discourage the necessary strategic investment in FlexiPay during the year. This aligns with our approach to providing guidance to the market both for 2023 and for our medium-term guidance. The measures were set by the Committee and are in line with Funding Circle's strategy. Stretching financial targets were set by the Committee at the start of the year, considering our 2023 budget and guidance at the time. For the financial measures, an on-target bonus could be earned for achieving 2023 budget performance.

Structure of the 2023 bonus

Element (weighting %)		Threshold (0% payout)	Target (50% payout)	Maximum (100% payout)	Outcome	Implied payout of element CEO	Implied payout of element CFO
Financial measures (60%)	Loans AEBITDA (30%)	£0m	£10.6m	£15.9m	£10.7m	50.9%	
	Loans Total Income (30%)	£137.5m	£162m	£186.5m	£153.9m	33.5%	
Strategic / Non-financial including FlexiPay (40%)		See below				59.0%	59.0%
					Total (% of maximum)	48.9%	48.9%
					Total (% of salary)	65.1%	48.9%
					Final outcome (£k)	268	200

In this overall performance context, the outcome of the bonus assessment against the agreed targets was 48.9% of maximum. The Committee considers this an appropriate reflection of the overall performance delivered for stakeholders, and therefore no discretion was applied. 40% of the bonus payout will be deferred into shares for three years, in keeping with our Remuneration Policy.

Strategic/non-financial measures

Category	Details on objectives	Performance assessment
FlexiPay	› FlexiPay scaled significantly in 2023, reaching ~£230m in-year transactions, £234m of originations and 4x growth versus 2022. Although total income was below expectations, overall AEBITDA targets were achieved. › Customer usage tripled in 2023 with over 60,000 transactions, supporting 12,000 businesses. › Credit performance remained stable in the year and in line with targeted economics. › Demonstrated ability to attract more customers to broader Funding Circle ecosystem by creating a more frequent use customer use case and enabling customers to borrow, pay and spend. › Senior debt funding successfully in place. › Strategic milestones in the year were successfully achieved, including the launch of the FlexiPay Card.	
Stakeholders Doing the right thing for our customers and shareholders	› Our Net Promoter Score remained strong in 2023 at 79 for the Group. › Over 2023, Funding Circle dealt with customer complaints in line with the risk appetite set by the Board. › Strong start to participation in the third iteration of the UK government Recovery Loan Scheme, supporting an incremental set of businesses. › New customer segments launched in 2022 continued to deliver growth and Marketplace showed strong momentum in the UK and US. › Expanded distribution channels with new partnerships in the UK. › Completed first year of sports sponsorship with Premiership Rugby, connecting with local communities and driving brand engagement.	

Annual report on remuneration continued

2023 annual bonus continued

Strategic/non-financial measures continued

Category	Details on objectives	Performance assessment
Circlers Building an incredible place to work and learn	› Employee engagement fell marginally by 1% to 68%. This is slightly below our target of 70%. 84% of Circlers recommend Funding Circle as a great place to work, exceeding our target by 4%. › Introduced and embedded a new framework for goals and objective setting across the organisation. › Continued progress was made in 2023 across diversity, equity and inclusion.Circler sentiment remains strong, with 75% of Circlers feeling like they belong at Funding Circle, and 83% believing that people from all backgrounds and identities have equal opportunities to succeed. › Senior gender diversity is reported at 35% ,which is up on the previous year, continuing to progress towards our stretch goal of 40% representation. Excluding Technology roles, we are now around the 40% target. › Our mean Gender Pay Gap reduced from 22.4% to 17.4% and our median from 30.5% to 26.1%.	
Risk and sustainability Building a resilient and sustainable business to support all of our stakeholders	› Made good progress with the implementation of our climate strategy. We achieved carbon neutrality PAS 2060 recertification for our 2022 operational emissions, and have started the process for setting science based targets, with the aim to develop an annual transition plan to map our ambition to net zero by 2050. › Continued to support charities delivering social and environmental value, such as Earthwatch's Tiny Forest movement, and Hatch Enterprise which empowers underrepresented entrepreneurs to launch and grow their businesses. Circlers contributed 225 volunteering Impact Days in support of a range of good causes, raising over £20k for charitable causes. › Credit risk metrics have been assessed as "Green" for the entire year across both the UK and US. › Our portfolios in the US and UK are showing resilience and generally performing well. Strong credit risk management and credit strategy demonstrated by fast and effective changes being made in a volatile environment. › Technology risk and technical resilience continue to improve with more robust testing capabilities in place to support changes before production implementation. › Improved technology automation, alerting and incident response capability to maintain a stable platform. › Strengthened our financial crime controls and ensured continued compliance with anti-money laundering and sanctions regulations. › In 2023, we have maintained a robust control environment in relation to payment creation, payment authorisation, reconciliation review and monthly reporting. › The controls implemented in the prior year for the late payment money flow are embedded in the control environment and we continue with best practices in relation to the holding and treatment of client money and perform reconciliations daily. › Control environment assessments improved year on year.	
CEO personal performance	Lisa has continued to lead with authenticity and has positive feedback from the Board and her team. In a challenging and volatile macro environment she has demonstrated an ability to adapt and respond quickly and has not shied away from difficult decisions. She has continued to drive growth in new products while employing a disciplined approach to risk management. Her passion for the Company's mission is clear and she has built a strong values driven culture.	
CFO personal performance	Oliver's role has further expanded in 2023 and now encompasses finance, capital markets and UK operations (which he took on in Q4 2023) demonstrating the confidence Lisa has in him. Capital markets has had a strong year, with good execution against commercial goals. Finance continues to run well. He has continued to provide calm, thoughtful, open and transparent leadership and challenge to the Board, management team and Lisa.	

Restricted shares vesting in respect of 2023

Oliver White was granted an award of restricted shares on 19 May 2021 with a face value of 100% of salary (equivalent to an award of 269,306 nil-cost options) under our current Remuneration Policy. Vesting was based on meeting a performance-based financial underpin of 3-year average Operating Income covering the years 2021 to 2023 being greater than £150m. Based on the actual performance in 2021, 2022 and 2023 Operating Income of £165.5m, £131.4m, and £154.8m respectively the 3-year average is £150.6m which is just above the underpin. In addition to the financial underpin there were also qualitative underpins to ensure that Executive Directors are not rewarded where the Committee considers there to have been a failure in performance, including serious breach of regulation, material reputational damage and gross misconduct. The Committee determined that the qualitative underpins were also met and that no further discretion needs to be exercised and therefore the Restricted Shares will vest in full on 19 May 2024. There is a further 2-year post-vesting holding period that will apply until 19 May 2026.

Restricted Share awards granted during 2023

Restricted Share awards were granted to the Executive Directors on 30 March 2023 under our Policy. Details of the awards are set out below:

			Face value at grant[1]				
	Type of award	Number of shares	£	% of salary	Grant date	Vesting date	Holding period
Lisa Jacobs	Nil-cost option	358,177	193,416	46.7%	30 March 2023	30 March 2026	30 March 2026 to 30 March 2028
Oliver White	Nil-cost option	269,306	145,425	35.5%	30 March 2023	30 March 2026	30 March 2026 to 30 March 2028

1. Based on a grant date share price of £0.54 and salaries of £414,000 for Lisa Jacobs and £410,000 for Oliver White.

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

Directors' shareholding and share interests (audited)

Table of Directors' share interests as at 31 December 2023

	Beneficially owned shares[1]	Vested but unexercised awards	Unvested awards (not subject to performance conditions)	Unvested awards (subject to performance conditions)	Total
Executive Directors					
Lisa Jacobs	398,099	736,142	173,929	716,354	**2,024,524**
Oliver White	292,749	71,237	280,247	807,918	**1,452,151**
Non-Executive Directors					
Andrew Learoyd	1,689,991	100,000	—	—	**1,789,991**
Samir Desai	16,397,164	2,150,000	192,570	—	**18,739,734**
Eric Daniels	101,785	187,500	—	—	**289,285**
Geeta Gopalan	33,216	—	—	—	**33,216**
Helen Beck	9,235	—	—	—	**9,235**
Matthew King	15,400	—	—	—	**15,400**
Hendrik Nelis	—	—	—	—	**—**
Neil Rimer	—	—	—	—	**—**

1. Includes shares owned by connected persons.

The Company's share ownership requirements are that Executive Directors shall (subject to personal circumstances) build and maintain a shareholding equivalent to at least 200% of salary over five years from their appointment. At the end of the 2023 financial year, the CEO (who was appointed to the Board on 1 January 2022), held 1,308,170 shares, equal to 79.7% of salary (which includes unexercised awards on a net of tax basis) based on the three-month average share price to 31 December 2023 of 37.5p. The CFO (who was appointed to the Board on 15 June 2020), held 644,233 shares, equal to 43.8% of salary (which includes unexercised awards on a net of tax basis) based on the three month average share price to 31 December 2023 of 37.5p. Unvested awards subject to performance conditions are not taken into account in the assessment of the shareholding until such time as they vest.

Annual report on remuneration continued

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

	Award type[1]	Date of grant	No. of awards at 1 January 2023	Awards granted in the year	Awards lapsed in the year	Awards vested in the year	Awards exercised in the year	No. of awards at 31 December 2023	Date of vesting	Exercise price	Market price on exercise
Executive Directors											
Lisa Jacobs	2018 LTIP	29/11/2019	250,000	—	—	—	—	**250,000**	11/03/2020	£0.00	n/a
		18/03/2020	162,500	—	—	—	—	**162,500**	12/03/2022	£0.00	n/a
		26/03/2021	173,642	—	—	173,642	—	**173,642**	26/03/2023	£0.00	n/a
	Restricted Shares	24/03/2022	358,177	—	—	—	—	**358,177**	24/03/2025	£0.00	n/a
		30/03/2023	—	358,177	—	—	—	**358,177**	30/03/2026	£0.00	n/a
	2021 Deferred bonus plan	30/3/2023	—	166,110	—	—	—	**166,110**	30/3/2026	£0.00	n/a
	Share Incentive Plan	03/11/2020	4,646	—	—	—	—	**4,646**	15/04/2022	£0.00	n/a
		05/05/2021	2,341	—	—	—	—	**2,341**	05/05/2023	£0.00	n/a
		20/04/2022	4,814	—	—	—	—	**4,814**	20/04/2024	£0.00	n/a
		16/06/2022	3,005	—	—	—	—	**3,005**	16/06/2024	£0.00	n/a
	2011 EMI Share Plan	19/03/2013	41,000	—	—	—	41,000	**—**	26/09/2016	£0.02	£0.61
		05/11/2013	44,000	—	—	—	44,000	**—**	19/03/2017	£0.02	n/a
	Unapproved	09/05/2018	150,000	—	—	—	—	**150,000**	01/03/2022	£0.44	n/a
Oliver White	2018 LTIP	19/06/2020	925,390	—	925,390	—	—	**—**	31/03/2023	£0.00	n/a
	Share Incentive Plan	03/11/2020	4,991	—	—	—	—	**4,991**	15/04/2022	£0.00	n/a
		18/01/2021	3,967	—	—	3,967	—	**3,967**	18/01/2023	£0.00	n/a
		20/4/2022	7,819	—	—	—	—	**7,819**	20/04/2024	£0.00	n/a
	2020 bonus buyout	26/03/2021	71,237	—	—	—	—	**71,237**	26/03/2022	£0.00	n/a
	Restricted Shares	19/05/2021	269,306	—	—	—	—	**269,306**	19/05/2024	£0.00	n/a
		24/03/2022	269,306	—	—	—	—	**269,306**	24/03/2025	£0.00	n/a
		30/03/2023	—	269,306	—	—	—	**269,306**	30/3/2026	£0.00	n/a
	2021 Deferred bonus plan	21/04/2022	147,533	—	—	—	—	**147,533**	21/04/2025	£0.00	n/a
		30/03/2023	—	124,895	—	—	—	**124,895**	25/03/2025	£0.00	n/a
Non-Executive Directors											
Andrew Learoyd	Unapproved	18/6/2015	100,000	—	—	—	—	**100,000**	18/06/2015	£0.31	n/a
Samir Desai	Unapproved	13/06/2018	2,150,000	—	—	268,750	—	**2,150,000**	01/06/2020	£0.00	n/a
	2021 Deferred bonus plan	21/04/2022	192,570	—	—	—	—	**192,570**	21/04/2025	£0.00	n/a
Eric Daniels	Unapproved	22/04/2013	195,704	—	—	—	195,704	**—**	22/04/2013	£0.02	£0.53
		09/09/2016	187,500	—	—	—	—	**187,500**	01/03/2016	£0.39	n/a

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

Payments for loss of office

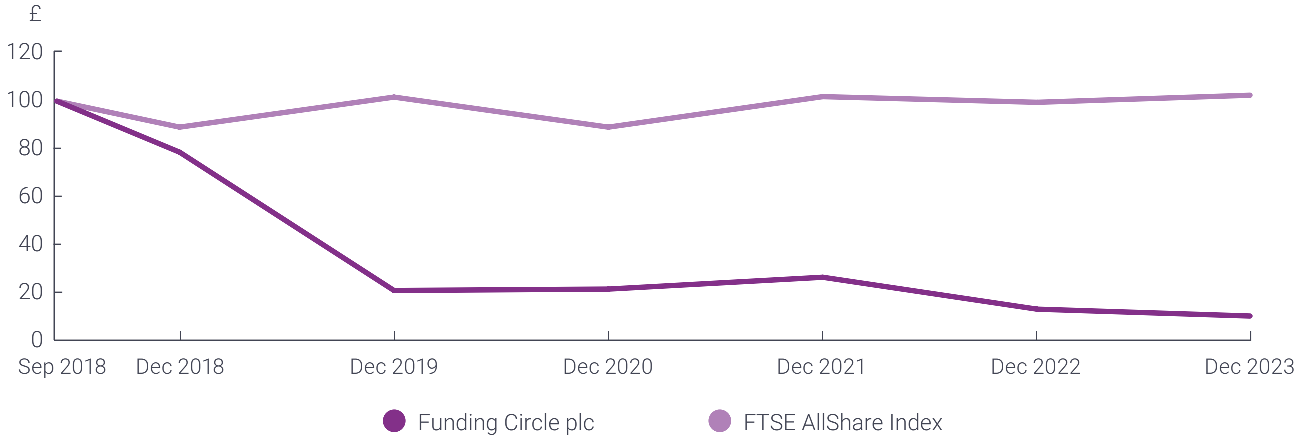
There were no payments made for loss of office during the year.

Payments to former Directors

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

Performance graph

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



CEO remuneration table

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

£000	2016	2017	2018	2019	2020	2021	2022	**2023**
CEO	Samir Desai	Samir Desai	Samir Desai	Samir Desai	Samir Desai	Samir Desai	Lisa Jacobs	**Lisa Jacobs**
CEO total remuneration[1]	160	204	4,081	211	201	629	661	**701**
Annual bonus payout (% maximum)[2]	n/a	n/a	n/a	n/a	n/a	78.4%	45.0%	**48.9%**
Long-term incentives (% maximum)[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

1. The 2018 figure includes share options that were granted prior to IPO which were subject to continued employment only. In 2021 Samir Desai waived his salary increase from £210,000 to £400,000.
2. Samir Desai did not participate in any bonus from bonus from 2016 to 2020.
3. Samir Desai did not participate in any long-term incentive. Lisa Jacobs' first long-term incentive opportunity as CEO was the Restricted Share award made in March 2022. The % vesting of this award will be reported against 2024 in the relevant Directors' Remuneration Report.

Relative importance of spend on pay

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

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

	2023	2022	% Change
Total Income	**£162.2m**	£151.0m	+7.4%
Adjusted EBITDA	**-£3.9m**	£9.5m	-141.1%
Employee costs	**£96.5m**	£86.4m	+11.7%
Average number of employees	**959**	893	+7.4%

Annual report on remuneration continued

Percentage change in Directors' remuneration compared with employees

The table below sets out the annual percentage change in remuneration from 2020 to 2023 for each individual who was a Director during 2023, compared to that for an average employee. Data for former Directors during this timeframe can be found in the relevant Directors' Remuneration Reports spanning their tenure.

	Salary/fees[1]				Benefits				Annual bonus			
	2022 to 2023	2021 to 2022	2020 to 2021	2019 to 2020	2022 to 2023	2021 to 2022	2020 to 2021	2019 to 2020	2022 to 2023	2021 to 2022	2020 to 2021	2019 to 2020
Executive Directors												
Lisa Jacobs[2]	+2.9%	n/a	n/a	n/a	+2.7%	n/a	n/a	n/a	+12.0%	n/a	n/a	n/a
Samir Desai (CEO)	n/a	n/a	+5%	-5%	n/a	n/a	+33.6%[3]	0%	n/a	n/a	n/a	n/a
Oliver White[4]	+2.1%	—	—	n/a	+1.7%	-22%	+8.4%	n/a	+11.1%	-43.7%	n/a	n/a
Non-Executive Directors												
Andrew Learoyd	+0.6%	+2.9%	+5%	-5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Samir Desai (NED)	—	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Eric Daniels	+1.2%%	+6.4%	+5%	-5%	-91.9%	+21%	n/a	-100%	n/a	n/a	n/a	n/a
Geeta Gopalan	+1.1%	+11%	+15%	-5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Helen Beck[5]	+1.2%	+6.4%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Matthew King[6]	+3.7%	+39.3%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hendrik Nelis[7]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Neil Rimer[7]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average employee[8]	+3.4%	8.7%	-13.3%	-1.7%	+7.3%	-4.0%	+8.7%	+1.8%	7.0%	+3.3%	+17.1%	+61.2%

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

CEO pay ratio

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

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	Option A	18.1	11.8	7.4
2022	Option A	17.6	11.3	7.0
2021	Option A	18.4	11.6	6.9
2020	Option A	5.8	3.8	2.3
2019	Option A	6.8	3.9	2.5

There has been an slight increase in the CEO pay ratio for 2023 due to Lisa's bonus paying out slightly higher in 2023 than in 2022. The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Total pay and benefits used to calculate the ratios

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

	25th percentile	Median	75th percentile
2023			
Salary component	£31,603	£50,169	£83,212
Total pay and benefits	£38,831	£59,286	£95,018

The CEO remuneration is the total single figure remuneration for the relevant years and 2022 and 2023 are disclosed on page 108. The UK employee total remuneration has been calculated based on the amount paid or receivable for the relevant years. The calculations for the UK employees were performed as at the final day of the relevant financial year.

Implementation of the Remuneration Policy for the year ended 31 December 2024

Salary

Initially, after considering several factors, including internal relativities and external comparative data, the Committee had proposed an increase of 4% for Lisa Jacobs (her salary being lower quartile in the FTSE small-cap), but Lisa waived any increase above 2.5% for 2024 to be in line with the proposed increases for Oliver White and to reflect the focus on cost management and profitability in 2024. Lisa's bonus opportunity and Restricted Share award will be based on her salary post-waiver.

The table below shows the salaries for the Executive Directors as at 1 March 2024 in comparison to base salary as at 1 March 2023. The below increases are below the budget for other Circlers of 5%.

	1 March 2023	1 March 2024	% change
Lisa Jacobs	£414,000	£424,350	+2.5%
Oliver White	£410,000	£420,250	+2.5%

Annual bonus

The maximum opportunity for the CEO is 133% of salary and for the CFO is 100% of salary. The target opportunity for both is 50% of maximum opportunity. In line with 2023, we will base the annual bonus at least 60% on financial measures, which will continue to reflect income and profit measures, and up to 40% on strategic/non-financial measures.

40% of any bonus earned will be deferred into shares for three years. The Board considers the actual targets for 2024 to be commercially sensitive at this time, however, we will provide retrospective disclosure of these targets in next year's report.

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

Restricted Share awards

In determining award sizes for the Executive Directors for 2024, the Committee has carefully considered a number of factors. The Committee noted that as a result of the 'fixed number of shares' grant model in the 2021 Policy, the actual face value of awards made to Executive Directors during 2022 and 2023 fell substantially below the market competitive level (for example, 2023 awards had a grant value of c.47% and c.35% of salary for the CEO and CFO, respectively – see page 111), and the level of equity granted to date. However, the Committee also reflected on investor guidance and expectations around safeguarding against the potential for 'windfall gains' in scenarios where long-term share awards are granted following a period of share price decline.

The 2024 awards will be granted following shareholder approval of the new Policy at the AGM in May. Taking into account the factors above, the Committee will grant awards at a level below the Policy maximum of 133% and 100% of salary, for the CEO and CFO respectively, which we believe strikes an appropriate balance between the various perspectives. We retain discretion to ensure the actual grant, which will be disclosed when awards are granted and in next year's report, reflects the latest available information prior to grant.

Restricted share awards will be subject to a discretionary underpins that guide the Remuneration Committee when determining whether any discretion needs to be applied to reduce, including to nil, the final vesting of the restricted shares. The underpins are both financial as well as non-financial, as follows:

- For the financial underpins the Remuneration Committee will assess whether there is a material weakness in the underlying financial health or sustainability of the business. Factors such as, but not limited to, share price, Originations, Net Income, profitability, and cash generation would be considered, in the context of the Board's expectations and the market environment.
- For the non-financial underpins the Remuneration Committee will assess ESG performance, delivery against strategic objectives, and personal performance over the vesting period.
- To ensure that Executive Directors are not rewarded where the Committee considers there to have been a failure in performance, including serious breaches of regulation, material reputational damage or gross misconduct further reductions will be made.

Annual report on remuneration continued

Implementation of the Remuneration Policy for the year ended 31 December 2024 continued

Restricted Share awards continued

- Prior to vesting, in addition to the above, the Committee retains the flexibility to assess any element of performance it deems appropriate in order to determine whether a discretionary adjustment is requirement

Any vested awards will remain subject to a two-year post-vesting holding period.

Benefits and pension contributions

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

2023 and 2024 Non-Executive Director and Chair fees

It has been determined that the Non-Executive Director fees will remain unchanged for 2024, as set out in the table below:

Fee	2023	2024
Chair fee	£207,000	£207,000
Non-Executive Director base fee	£55,000	£55,000
Senior Independent Director fee	£10,000	£10,000
Committee Chair fees (other than the Nomination Committee)	£15,000	£15,000
Chair of Funding Circle Ltd	£15,000	£15,000

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

Report of the Directors

for the year ended 31 December 2023

The Directors present their report (the "Directors' Report") and the Annual Report and Accounts for the year ended 31 December 2023.

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

Section of Annual Report	Page reference
Information required by LR9.8/DTRs	
Corporate Governance Statement	Corporate Governance Statement (page 74)
Going Concern and Viability Statement	Risk Management (page 64)
Directors' interests	Remuneration Report (page 111) and Directors' Report (page 117)
Long-term incentive schemes	Remuneration Report (page 99)
Waiver of emoluments	Remuneration Report (pages 94 to 116)
Powers for the Company to buy back its shares	Directors' Report (page 118)
Allotment of shares during the year	Note 15 to the financial statements
Significant shareholders	Directors' Report (page 119)
Related party agreements	Note 23 to the financial statements
Diversity policy	Strategic Report (page 25)
Climate-related financial disclosures	Environment, social and governance ("ESG") (pages 22 to 41)
Statutory information	
Stakeholder engagement	Strategic Report – Our stakeholders (pages 42 to 44). See also Board decision making and section 172 duties on pages 72 to 74 of the Corporate Governance Report.
Employee engagement	Strategic Report – Our stakeholders (pages 42 to 44) and Our People (page 25). See also Board decision making and section 172 duties on pages 72 to 74 of the Corporate Governance Report.
Policy concerning the employment of disabled persons	Strategic Report – Our people (page 25)
Financial instruments	Note 14 to the financial statements
Future developments of the business	Strategic Report (pages 4 to 51)
Greenhouse gas emissions, energy consumption and energy efficiency action	Strategic Report – Environment, social and governance (pages 28 to 30)
Significant agreements	Directors' Report (page 117)
Non-financial reporting	Strategic Report – see below

Management Report

This Directors' Report, together with the Strategic Report on pages 1 to 65, forms the Management Report for the purposes of DTR 4.1.5R.

Strategic Report

Section 414A of the Companies Act 2006 (the "Act") requires the Directors to present a Strategic Report in the Annual Report and Accounts. The information can be found on pages 1 to 65.

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

Section 414C of the Act requires the Company to include within its Strategic Report a non-financial statement setting out such information as is required by section 414CB of the Act. Such information is set out in the ESG section on pages 22 to 41, the Our business model and Our strategy sections on pages 12 to 13 and 18 to 19, our key performance indicators on page 20 to 21, and the Risk management and Going concern and Viability statement sections on pages 52 to 65.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on page 68 to 69. Our Articles of Association provide that all our Directors must stand for re-election by shareholders at each AGM.

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 107. The interests of the Directors in the shares of the Company are also shown on page 111 of that report. In the period between 1 January 2024 and the date of this report), there were no additional ordinary shares allotted to Lisa Jacobs or Oliver White under the Company's Share Incentive Plan.

In line with the requirements of the Act, each Director has notified the Company of any situation in which they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). The Board has formal procedures to deal with Directors' conflicts of interest.

None of the Directors has a material interest in any significant contract with the Company or any member of its Group.

Insurance and indemnities

The Company maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. In addition, the Company indemnifies each Director under a separate deed of indemnity. The Company also indemnifies each Director under its Articles of Association. Such indemnities are qualifying indemnities for the purposes of, and permitted under, section 234 of the Act.

Results and dividends

The Group's and the Company's audited financial statements for the year are set out on pages 129 to 190.

The Directors do not recommend payment of a final dividend for 2023 (2022: £nil).

Authority to allot or purchase the Company's shares

The Articles permit the Directors to issue or approve the purchase by the Company of its own shares, subject to obtaining shareholders' prior approval. The authority to issue or buy back shares will expire at the 2024 AGM, and it will be proposed at the meeting that the Directors be granted new authorities to issue and buy back shares. The Directors currently have authority to approve the Company's purchase of up to 36,130,314 of the Company's ordinary shares. The trustee of the Company's Employee Benefit Trust made market purchases of 3,290,000 (2022: 17,660,340) ordinary shares of nominal value of £0.001 in the Company from May to June 2023, representing 0.91% of the issued share capital at 31 December 2023, for the purpose of satisfying employee share option plans. The total cost of the market purchases was £1.8m with the weighted average purchase price of each share being £0.55. This represents the maximum number of purchased shares held during the year. 3,446,471 shares were utilised during the year to satisfy the exercise of employee share options. As at the date of this report, the trustee holds 4.6% of the Company's issued share capital.

Share capital

The Company's issued share capital comprises ordinary shares of £0.001, each of which are listed on the London Stock Exchange. The issued share capital of the Company as at 31 December 2023 comprises 361,303,143 ordinary shares of £0.001 each. Further information regarding the Company's issued share capital can be found on page 168 of the financial statements.

Details of the shares held by the Group's Employee Benefit Trust are disclosed in note 15 to the financial statements.

Rights attaching to shares

All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below. Except in relation to dividends and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company. The Company's shares are not redeemable. However, following any grant of authority from shareholders, the Company may purchase or contract to purchase any of the shares on or off market, subject to the Act and the requirements of the Listing Rules.

Voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting, every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every share of which he or she is the holder. No shareholder holds ordinary shares carrying special rights relating to the control of the Company and the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights.

Shares held by the Company's Employee Benefit Trust rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to shares held in trust rest with the Trustees and are not exercisable by employees, although the Trustees will not automatically exercise such rights arising from allocated shares unless directed by the Company.

Restrictions on transfer of securities

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. All issued share capital of the Company at the date of this report is fully paid. Certain restrictions are also imposed by laws and regulations (such as insider dealing and market requirements relating to closed periods) and requirements of the Disclosure Guidance and Transparency Rules, as well as the Company's own dealing codes, whereby Directors, persons connected to the Directors and certain employees of the Company require approval to deal in the Company's securities.

Change of control

Certain LTIP awards held by members of the GLT (excluding the Executive Directors) contain additional protections in the event of termination of employment due to a takeover bid where such termination is deemed to be connected with the change of control. Save in respect of these awards, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid.

The Group is party to a limited number of funding and servicing agreements that include change of control provisions which, in the event of a change of control undertaken not in compliance with the procedural requirements of the relevant arrangement, could result in the termination of further loan origination and termination of servicing by the Group under the affected arrangement. In addition, the Group participates in one or more lending schemes that benefit from a form of government-backed guarantee and it is expected that, in the event of a change of control of the Company, the consent of the relevant loan guarantor would be required to enable the Group's continued participation in those schemes.

Significant shareholdings

As at 31 December 2023 and at the date of this report, the Company has been notified pursuant to DTR5.1, or is otherwise aware, of the following significant interests in the issued ordinary share capital of the Company:

Name of shareholder	Number of ordinary shares as at 31 December 2023	Percentage issued share capital as at 31 December 2023	Number of ordinary shares as at 14 March 2024	Percentage issued capital as at 14 March 2024
Index Ventures	58,618,351	16.22	58,618,351	16.22
Aktieselskabet af 2.7.2018	46,507,936	12.87	47,067,936	13.03
Accel London Management	26,906,743	7.45	26,906,743	7.45
Funding Circle Employee Benefit Trust	16,726,515	4.63	16,726,515	4.63
DST Managers	16,505,378	4.57	16,505,378	4.57
JO Hambro Capital	16,403,932	4.54	16,403,932	4.54
Mr Samir Desai	16,397,164	4.54	16,397,164	4.54
T Rowe Price International Ltd	16,295,220	4.51	16,295,220	4.51
Capital Group	14,713,073	4.07	14,713,073	4.07

Research and development

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

Political donations

There were no political donations made during the year or the previous year.

External branches

The Company has subsidiaries in the United Kingdom, the United States of America, Germany, Spain and the Netherlands and has one UK branch of the Netherlands entity.

External auditors

PwC have confirmed their willingness to continue as external auditors and a resolution to reappoint them as the Company's external auditors, and to authorise the Directors to fix the auditors' remuneration, will be proposed at the 2024 AGM.

Statement of disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's external auditors are unaware; and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

2024 AGM

The Company's AGM will take place at 12:00 on 15 May 2024 at the Company's offices at 71 Queen Victoria Street, London EC4V 4AY.

A separate circular, comprising a letter from the Chair of the Board, Notice of Meeting and explanatory notes on the resolutions being proposed, has been circulated to shareholders and is available on our website, https:// corporate. fundingcircle.com/investors/shareholder-meetings.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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

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

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

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

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Approved by the Board and signed on its behalf.

Lisa Jacobs
Chief Executive Officer
14 March 2024

Financial statements

Independent auditors' report

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion, Funding Circle Holdings plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2023 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 December 2023; the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the material accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 4, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit included full scope audits of Funding Circle Limited (excluding FlexiPay) and the US Group. We performed audit procedures over material balances in respect of the FlexiPay component at a Group level. We scoped in balances in other legal entities which together with the full scope audits and FlexiPay audit accounted for 99.7% of the Group's total income and 89% of the Group's loss before taxation.
- The scope of the audit and the nature, timing and extent of audit procedures were determined by our risk assessment, the financial significance of financial statement line items and qualitative factors (including history of misstatement through fraud or error). In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

- Valuation of SME loans (securitised) and investments in RLS / CBILs trusts (Group)
- Carrying value of the Company's investment in the US subsidiary (Company)
- FlexiPay lines of credit and determination of the allowance for expected credit losses (Group)

Materiality

- Overall Group materiality: £1,622,000 (2022: £1,430,000) based on 1% of total income (2022: based on 5% of the average of profit/loss before taxation for the previous three years, adjusted for exceptional items and fair value gains and losses).
- Overall Company materiality: £3,592,000 (2022: £3,840,000) based on 1% of total assets.
- Performance materiality: £1,216,500 (2022: £1,072,500) (Group) and £2,694,000 (2022: £2,880,000) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

FlexiPay lines of credit and determination of the allowance for expected credit losses is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of SME loans (securitised) and investments in RLS / CBILs trusts (Group) Refer to Report of the Audit Committee – Significant matters considered in relation to the financial statements; note 1 (material accounting policies); note 10 (investment in SME loans); and note 14 (financial risk management) of the Group financial statements. The Group holds portfolios of US SME loans (securitised) and investments in RLS / CBILs trusts, recording them on the balance sheet at fair value with resultant gains and losses recognised in the income statement. As at the balance sheet date, the Group's investment in US SME loans (securitised) and investments in RLS / CBILs trusts held at fair value totalled £38.0 million. The estimation of the fair value of the US SME loans (securitised) and investments in RLS / CBILs trusts requires models which utilise both observable and unobservable inputs. Consequently it was an area of focus in our audit.	Our audit procedures comprised the following: › We understood the controls relating to the valuation of the Group's portfolio of US SME loans (securitised) and investments in RLS / CBILs trusts. › We engaged our valuation experts to assess the appropriateness of the methodology used by management in determining the valuation of the investments in US SME loans (securitised) and investments in RLS / CBILs trusts which are held at fair value. › This included assessing the reasonableness of the assumptions within the valuation models, including the discount rate, default rate, prepayment rate and recovery rate. › Our assessment of the reasonableness of the assumptions included comparison to third party data where available. We derived our own independent estimate of the discount rates and compared these to those used by management. › We built our own independent models to re-calculate the fair value using management's assumptions. Based on the above procedures performed, and the evidence obtained, we concluded that the estimated fair value of the US SME loans (securitised) and investments in RLS / CBILs trusts were reasonable.
Carrying value of the Company's investment in the US subsidiary (Company) Refer to Report of the Audit Committee – Significant matters considered in relation to the financial statements; note 1 (material accounting policies including key sources of estimation uncertainty); and note 5 (investments in subsidiary undertakings) of the Company financial statements. The Company holds an investment in the US subsidiary with a carrying value of £55.1 million after impairment. IAS 36 'Impairment of Assets' requires that investments are subject to an impairment review when there is an indication that an asset may be impaired or where there may be an impairment reversal. The following indicators of impairment were identified: › the market capitalisation of the Group is lower than the carrying value of the parent Company's investment in its subsidiaries; and › evidence that the Group Board was considering the future direction of the US business at the year end. Management performed an impairment assessment and estimated the recoverable amount using a value-in-use model. This assessment identified that an impairment of £27.1 million was required in order to reduce the carrying value to its value-in-use of £55.1 million. We performed sensitivity analysis to assess the susceptibility of reasonably possible changes in assumptions used by management in estimating the value-in-use and identified the origination and costs growth rate, the discount rate and the terminal growth rate as the key assumptions. Given the magnitude of the carrying value of the investment in the US subsidiary to the Company this has been an area of focus in our audit.	Our audit procedures comprised the following: › We understood and evaluated the design and implementation of controls relating to the Company's impairment assessment. › We assessed the methodology used by management against the requirements of the financial reporting framework, including how they incorporated uncertainty over the future direction of the US business in their value-in-use model. We also tested the mathematical accuracy of the model. › We agreed the forecast financial information to budgets and forecasts approved by senior management and the Board, including the adjustments from the Budget and Medium-Term Plan to reflect the slower planned growth in SBA lending. › We identified the key assumptions in management's forecasts and assessed their reasonableness by comparing them to other SBA businesses and performing a re-calculation based on expected origination levels. › We assessed the reasonableness of the forecast costs by reference to historical experience and that planned cost increases were commensurate with the growth forecast. › We assessed the appropriateness of the terminal growth rate and discount rate assumption by using our valuation experts to derive an independent view on the rates and considered the appropriateness of management's risk premium in the discount rate. Based on the above procedures performed, and evidence obtained, we considered the Directors' conclusion that the carrying value of the US subsidiary is impaired by £27.1 million to be reasonable.

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
FlexiPay lines of credit and determination of the allowance for expected credit losses (Group) Refer to Report of the Audit Committee – Significant matters considered in relation to the financial statements; note 1 (material accounting policies); note 2 (critical accounting judgements and key sources of estimation uncertainty); and note 14 (financial risk management) of the Group financial statements. At 31 December 2023 the gross carrying value of FlexiPay lines of credit was £55.4 million and the associated allowance for expected credit losses was £5.4 million on drawn lines of credit and £1.4 million on undrawn lines of credit. As explained more fully in the Strategic Report, FlexiPay was launched in 2022 and in 2023 transactions grew to over £234 million. Management have had to design and implement new systems, processes and controls over this business, including those that ensure the completeness and accuracy of information recorded in the financial statements. The determination of the allowance for expected credit losses is subjective and judgmental. A model is used to collectively determine the allowance for expected credit losses for both the drawn and undrawn lines of credit. The key assumptions and inputs into this model are the probability of default, loss given default and the use of multiple, probability weighted, macroeconomic scenarios. As a new product, FlexiPay has been the subject of significant internal focus and was a focus of our audit.	We performed the following procedures over the completeness and accuracy of FlexiPay transactions in the financial statements: › We understood the controls relating to the FlexiPay business, including those over the origination and repayment of lines of credit; › We used data auditing techniques to reconcile cash receipts and payments, as shown on the internal systems, arising from FlexiPay transactions to entries in third party bank statements; › We recalculated a sample of the interest income arising from FlexiPay transactions; and For a sample of accounts, we agreed key terms (including fee rate and credit limit) to the agreement with the customer. Based on the procedures performed, we concluded that FlexiPay transactions were recorded completely and accurately in the financial statements. Together with our credit risk specialists, we performed the following substantive procedures over the allowance for expected credit losses on FlexiPay lines of credit: › we engaged our credit risk specialists to review the methodology and assumptions applied by management in calculating the allowance for expected credit losses; › we independently tested the derivation of key assumptions, and also tested that the model methodology has been implemented as intended; › we developed a challenger economic forecast and modelling approach to assess the reasonableness of management's economic scalars applied; and › we tested the accuracy of the historical loan tape used as a key input into the credit loss model including customer utilisation and performance. We also assessed the disclosures in note 2, regarding the critical accounting judgements and key sources of estimation uncertainty involved in determining ECL and found them to be appropriate. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions and management judgements in determining the allowance for expected credit losses for FlexiPay lines of credit to be appropriate and compliant with the requirements of IFRS 9.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

1) Audit approach to Funding Circle's operations: We performed a risk assessment, giving consideration to relevant external and internal factors, including economic risks, climate change, relevant accounting and regulatory developments, and Funding Circle's strategy. We also considered our knowledge and experience obtained in prior year audits. We designed our audit approach for the products and services that substantially make up Funding Circle's businesses in the UK, US and FlexiPay such as platform lending, marketplace referrals and the origination of, and investment in, SME loan portfolios and lines of credit. The audit approach was designed by a partner and team members who are specialists in the relevant areas. The risk assessment and audit approach were provided to the US audit team who contributed to the Group audit.

2) Audit work for in scope components: Through our risk assessment and scoping we identified Funding Circle Limited (excluding FlexiPay) and the US Group as full scope components due to being financially significant. We considered FlexiPay as a limited scope component for material balances. We instructed our network firm in the US to perform a full scope audit of the US component. The Group audit team performed the audit work for the UK component and the specific work over FlexiPay and other balances that were in scope for the Group audit. We assigned materiality levels to components reflecting the size of their operations. The performance materiality levels ranged from £750,000 to £1,155,697. We determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. This included active and regular dialogue with the partner and team responsible for the audit of the US component, the issuance of instructions, reviewing their audit plan and a review of their audit working papers and their findings in certain areas.

3) Audit procedures undertaken at a Group level and on the Company: We ensured that appropriate further work was undertaken for the Group and Company. Certain account balances were audited centrally by the Group engagement team, including the Company's investment in subsidiary undertakings, investments in associates, valuation of SME loans, capitalisation of development costs, marketplace fee revenue, operating expenses, leases, share based payments, the consolidation of the Group's results, the preparation of the financial statements, and certain disclosures within the Directors' remuneration report and taxation.

4) Using the work of others: We used the evidence provided by our valuation experts and specialists for our work on assumptions used in the impairment assessment over the Company's investment in the US and UK subsidiaries, the valuation of the SME loans recorded at fair value, and the allowance for expected credit losses on lines of credit.

Report on the audit of the financial statements continued

Our audit approach continued

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's and Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£1,622,000 (2022: £1,430,000).	£3,592,000 (2022: £3,840,000).
How we determined it	1% of total income (2022: based on 5% of the average of profit/loss before taxation for the previous three years, adjusted for exceptional items and fair value gains and losses).	1% of total assets.
Rationale for benchmark applied	In the prior year overall materiality was determined by reference to the three year average of adjusted profit/loss before tax - adjusting for exceptional items and fair value gains/(losses). However, in light of the Group's focus on new products (e.g. FlexiPay) and the impact that this will have on the profit and loss before tax, we have changed the benchmark for 2023 to total income. We consider this to be an appropriate benchmark as total income is a key performance indicator for Group performance and a metric used to guide analysts as well as a measure to determine executive compensation.	We consider total assets to be an appropriate benchmark to apply on the basis that the Company is a non-trading investment company that holds investment in the Group's subsidiaries.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1,000,000 and £1,540,900. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £1,216,500 (2022: £1,072,500) for the Group financial statements and £2,694,000 (2022: £2,880,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £81,100 (Group audit) (2022: £71,500) and £179,615 (Company audit) (2022: £195,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of external risks such as an uncertain economic environment and climate change and the planned exit from the US business;
- understanding and evaluating management's financial forecasts and liquidity and regulatory capital over the going concern period including the impact of the planned exit from the US business and an evaluation of the stress testing performed by management;
- review of management's covenant compliance monitoring and the impact of the stress scenarios on the covenants;
- substantiation of financial resources available to the Group and Company as at the balance sheet date including the unrestricted cash; and
- reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Conclusions relating to going concern continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Report on the audit of the financial statements continued

Corporate governance statement continued

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority ("FCA"), 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 posting of journal entries. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- review of correspondence with, and reports to, the FCA;
- review of a sample of customer complaints to identify any indicators of breaches in laws and regulations or fraud;
- enquiries of the Directors, the Chair of the Audit and Risk Committee, the Head of Internal Audit and management, including the Group's general counsel and the Group's head of legal and regulatory, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- review of board meeting minutes and internal audit reports issued in the period to identify any indicators of breaches in laws and regulations and fraud;
- identifying and testing journal entries, including those with unusual account combinations impacting total income; and
- challenging significant assumptions and judgements made by management in its accounting estimates and assessing them for bias.

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Responsibilities for the financial statements and the audit continued

Auditors' responsibilities for the audit of the financial statements continued

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors on 4 August 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is nine years, covering the years ended 31 December 2015 to 31 December 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 March 2024

Consolidated statement of comprehensive income

for the year ended 31 December 2023

	Note	31 December 2023 £m	31 December 2022 (re-presented)[1] £m
Transaction fees		**88.7**	77.5
Servicing fees		**42.4**	47.9
Interest income[2]		**16.7**	4.2
Other fees		**7.0**	4.1
Operating income		**154.8**	133.7
Investment income		**8.0**	22.0
Investment expense		**(0.6)**	(4.7)
Total income		**162.2**	151.0
Fair value gains		**8.7**	4.8
Cost of funds		**(2.7)**	—
Net income	3	**168.2**	155.8
People costs	4, 5	**(94.4)**	(85.9)
Marketing costs	4	**(48.4)**	(38.4)
Depreciation, amortisation and impairment	4	**(22.9)**	(17.0)
(Charge)/credit for expected credit losses	4, 14, 14	**(4.4)**	1.5
Other costs	4	**(31.3)**	(28.9)
Operating expenses	4	**(201.4)**	(168.7)
Loss before taxation		**(33.2)**	(12.9)
Income tax (charge)/credit	6	**(5.1)**	6.0
Loss for the year		**(38.3)**	(6.9)
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations	17	**(2.7)**	5.8
Total comprehensive loss for the year		**(41.0)**	(1.1)
Total comprehensive loss attributable to:			
Owners of the Parent		**(41.0)**	(1.1)
Loss per share			
Basic and diluted loss per share	7	**(11.1)p**	(2.0)p

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

2. Interest income recognised on assets held at amortised cost under the effective interest rate method and £6.5 million (2022: £1.6 million) on money market funds held at fair value through profit and loss.

All amounts relate to continuing activities.

The notes on pages 133 to 178 form part of these financial statements.

Consolidated balance sheet

as at 31 December 2023

	Note	**31 December 2023 £m**	31 December 2022 £m
Non-current assets			
Intangible assets	8	**23.0**	28.2
Property, plant and equipment	9	**5.0**	10.0
Investment in associates	27	**1.5**	2.7
Investment in trusts and co-investments	10	**25.2**	28.7
SME loans (other)	10	**6.7**	24.8
Deferred tax asset	6	**—**	6.9
Trade and other receivables	11	**1.4**	3.4
		62.8	104.7
Current assets			
SME loans (warehouse)	10	**1.3**	2.4
SME loans (securitised)	10	**16.4**	45.8
SME loans (other)	10	**0.9**	20.9
Lines of credit	10	**50.0**	16.0
Trade and other receivables	11	**20.4**	16.5
Cash and cash equivalents	20	**221.4**	177.7
		310.4	279.3
Total assets		**373.2**	384.0
Current liabilities			
Trade and other payables	12	**54.3**	31.8
Bonds	14	**—**	23.7
Bank borrowings	14	**54.7**	—
Short-term provisions and other liabilities	13	**1.5**	1.0
Lease liabilities	9	**7.2**	7.2
		117.7	63.7
Non-current liabilities			
Long-term provisions and other liabilities	13	**1.1**	1.1
Bank borrowings	14	**2.2**	22.6
Lease liabilities	9	**5.4**	12.6
Total liabilities		**126.4**	100.0
Equity			
Share capital	15	**0.4**	0.4
Share premium account	16	**293.1**	293.1
Foreign exchange reserve	17	**14.2**	16.9
Share options reserve		**24.0**	22.2
Accumulated losses	18	**(84.9)**	(48.6)
Total equity		**246.8**	284.0
Total equity and liabilities		**373.2**	384.0

The financial statements on pages 129 to 178 were approved by the Board and authorised for issue on 14 March 2024. They were signed on behalf of the Board by:

Oliver White
Director
Company registration number 07123934

The notes on pages 133 to 178 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2023

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Accumulated losses £m	Total equity £m
Balance at 1 January 2022		0.4	293.0	11.1	19.1	(35.6)	288.0
Loss for the year	18	—	—	—	—	(6.9)	(6.9)
Other comprehensive income/(expense)							
Exchange differences on translation of foreign operations	17	—	—	5.8	—	—	5.8
Total comprehensive income/(expense)		—	—	5.8	—	(6.9)	(1.1)
Transactions with owners							
Transfer of share option costs	18	—	—	—	(2.6)	2.6	—
Purchase of own shares held in Employee Benefit Trust		—	—	—	—	(8.7)	(8.7)
Issue of share capital	15, 16	—	0.1	—	—	—	0.1
Employee share schemes – value of employee services		—	—	—	5.7	—	5.7
Balance at 31 December 2022		0.4	293.1	16.9	22.2	(48.6)	284.0
Loss for the year	18	—	—	—	—	(38.3)	(38.3)
Other comprehensive income/(expense)							
Exchange differences on translation of foreign operations	17	—	—	(2.7)	—	—	(2.7)
Total comprehensive income/(expense)		—	—	(2.7)	—	(38.3)	(41.0)
Transactions with owners							
Transfer of share option costs	18	—	—	—	(3.8)	3.8	—
Purchase of own shares held in Employee Benefit Trust		—	—	—	—	(1.8)	(1.8)
Issue of share capital	15, 16	—	—	—	—	—	—
Employee share schemes – value of employee services		—	—	—	5.6	—	5.6
Balance at 31 December 2023		**0.4**	**293.1**	**14.2**	**24.0**	**(84.9)**	**246.8**

The notes on pages 133 to 178 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2023

	Note	31 December 2023 £m	31 December 2022 (re-presented)[1] £m
Net cash outflow from operating activities	20	**(25.6)**	(8.1)
Investing activities			
Purchase of intangible assets	8	**(11.5)**	(12.7)
Purchase of property, plant and equipment	9	**(0.7)**	(1.2)
Originations of SME loans (other)	14	**(16.6)**	(24.0)
Cash receipts from SME loans (other)	14	**21.8**	59.5
Cash receipts from SME loans (warehouse phase)	14	**2.0**	2.8
Proceeds from sale of SME loans (other)	14	**30.4**	—
Cash receipts from SME loans (securitised)	14	**35.0**	86.8
Proceeds from sale of SME loans (securitised)	14	**—**	39.5
Investment in trusts and co-investments	14	**(1.8)**	(6.4)
Cash receipts from investments in trusts and co-investments	14	**6.6**	10.0
Redemption in associates	23, 27	**1.1**	5.1
Dividends from associates	23, 27	**0.1**	0.3
Net cash inflow from investing activities		**66.4**	159.7
Financing activities			
Proceeds from bank borrowings	20	**55.8**	—
Repayment of bank borrowings	20	**(20.9)**	(57.9)
Payment of bond liabilities	20	**(23.4)**	(129.1)
Proceeds from the exercise of share options		**—**	0.1
Proceeds from subleases		**1.2**	1.2
Purchase of own shares		**(1.8)**	(8.7)
Payment of lease liabilities	20	**(7.2)**	(7.3)
Net cash inflow/(outflow) from financing activities		**3.7**	(201.7)
Net increase/(decrease) in cash and cash equivalents		**44.5**	(50.1)
Cash and cash equivalents at the beginning of the year		**177.7**	224.0
Effect of foreign exchange rate changes		**(0.8)**	3.8
Cash and cash equivalents at the end of the year	20	**221.4**	177.7

1. The comparative year to 31 December 2022 has been re-presented to present "Interest received", which was previously a component of investing activities, as a component of operating income to mirror the re-presentation of interest on cash and cash equivalents within "Interest income" on the consolidated statement of comprehensive income.

The notes on pages 133 to 178 form part of these financial statements.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2023

1. Material accounting policies

General information

Funding Circle Holdings plc (the "Company") is a public company limited by shares, which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of its registered office is given on page 196. The consolidated financial statements of the Group for the year ended 31 December 2023 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activities of the Group and the nature of the Group's operations are as a global SME loan platform.

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

Going concern

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

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

The Group made a total comprehensive loss of £41.0 million during the year ended 31 December 2023 (2022: loss of £1.1 million). As at 31 December 2023, the Group had net assets of £246.8 million (2022: £284.0 million). This includes £221.4 million of cash and cash equivalents (2022: £177.7 million) of which £51.8 million (2022: £12.1 million) is held for specific purposes and is restricted in use. Additionally, within the net assets, the Group holds £63.5 million (2022: £96.5 million) of invested capital, some of which is capable of being monetised if liquidity needs arise.

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

The base case scenario assumes:

- The economic environment still contains a high degree of uncertainty, this is factored into the 2024 credit risk strategies which include stressed assumptions;
- Ongoing investment in FlexiPay along with growth in UK loans with an exit of the US loans business;
- FlexiPay sees significant growth in top line as lines of credit become established and the card offering becomes a fully functional offering;
- The Group continues to fund the lines of credit through its balance sheet along with the senior banking facility; and
- Costs are controlled with any growth driven by marketing, expected credit losses (ECL) and cost of funds. Remaining costs grow but predominantly through inflation.

Management prepared a severe but plausible downside scenario in which:

- further macroeconomic volatility continues through the period with increased inflation and interest rates reducing Core originations and increasing costs;
- investment returns reduce owing to increased funding costs, widening discount rates and deterioration in loan performance;
- an operational event occurs requiring a cash outlay;
- a downside loss scenario is applied to Funding Circle's on-balance sheet investment in SME loans resulting in higher initial fair value losses and lower cash flows to the investments it owns; and
- a combined credit and liquidity risk stress for FlexiPay.

Management has reviewed financial covenants the Group must adhere to in relation to its servicing agreements. These are with institutional investors for which there are unrestricted cash, tangible net worth and debt to tangible net worth ratios. Management has also reviewed regulatory capital requirements. In the downside scenario the risk of covenant or capital requirement breach is considered remote. The Group does not currently rely on committed or uncommitted borrowing facilities, with the exception of a facility for the purpose of originating FlexiPay lines of credit and a small remaining balance on the PPPLF previously used to fund PPP loans, and does not have undrawn committed borrowing facilities available to the wider Group.

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

1. Material accounting policies continued

Going concern continued

The Directors have made enquiries of management and considered budgets and cash flow forecasts for the Group and have, at the time of approving these financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Further detail is contained in the Strategic Report on pages 64 and 65.

Basis of preparation

The Group presents its annual financial statements in conformity with United Kingdom laws and regulations.

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom's Financial Conduct Authority.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value through profit and loss ("FVTPL").

The preparation of financial statements requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Significant changes in the current reporting year

The financial position and performance of the Group were affected by the following events and transactions during the year ended 31 December 2023:

i) Launch of FlexiPay leveraged warehouse

During the year ended 31 December 2023, the Group set up a warehouse special purpose vehicle ("SPV") for the purposes of scaling up the FlexiPay product through bank borrowings. The vehicle is consolidated by the Group as a consequence of it having control through the design of the vehicle and ability to influence the returns and exposure to the majority of the variability of the cash flows generated by the vehicle. As a result, the underlying lines of credit and borrowings through the senior lending facility in the vehicle are also consolidated. The interest and other fees associated with the borrowing facility are presented within cost of funds. Details of the borrowing facility terms are outlined in note 14.

ii) Unwind of US SPV

In April 2023, Funding Circle exercised the call rights associated with the ownership of the unrated junior residual tranches of Small Business Lending Trust 2020-A's bonds in the US. This resulted in Funding Circle buying out the remaining bondholders. The Group continues to recognise 100% of the previously securitised SME loans, which continue to be held at fair value through profit and loss within SME loans (securitised), as the Group continues to hold these with the intention of selling them.

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

iii) Sale of SME loans (other)

In February 2023, commercial loans in the US which had been temporarily funded by the Group with the intention of selling onwards, and were held at fair value through profit and loss, were sold to a third party investor for £30.4 million with a fair value loss of £0.4 million from the sale.

1. Material accounting policies continued

Changes in accounting policy and disclosures

The Group has adopted the following new and amended IFRSs and interpretations from 1 January 2023 on a full retrospective basis.

Standard/interpretation	Content	Applicable for financial years beginning on/after
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

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting years and have not been early adopted by the Group as follows:

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	Presentation of financial statements	1 January 2024
Amendments to IAS 1 – Non-current Liabilities with Covenants	Presentation of financial statements	1 January 2024
Amendment to IFRS 16 – Lease Liability in a Sale and Leaseback	Leases	1 January 2024

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

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

The business uses its cash resources where it makes the platform stronger. As a result, the Group historically invested in warehouse and securitisation vehicles (which are now largely unwound), co-invested alongside investors and more recently in the FlexiPay product. Where cash is not invested in these areas, it is held at banks and in money market funds earning interest. Given its use is integral to the business and the Group is now earning interest through various mechanisms, we now show the interest we earn on bank deposits, money market funds and client money, previously shown in “Finance income”, in “Interest income” within “Operating income”. Finance costs and profit/(loss) from share of associates are now presented within “Other costs” as these are not considered material. The comparative financial presentation has been re-presented accordingly with an additional £2.3 million presented in “Interest income” previously presented in “Finance income”, £0.5 million presented within “Other costs”, £0.9 million of which was previously presented within “Finance costs” and £0.4 million credit which was previously presented in “Share of net profit from associates”. The consolidated statement of cash flows and note 20 have also been re-presented to mirror this with interest received now forming part of cash flows from operating activities which were previously disclosed as investing activities, with the comparative period re-presented with £2.3 million included within cash flows from operations previously within cash flows from investing activities.

The Group’s definition of the alternative performance measure, adjusted EBITDA, has consequently also been adjusted to take account of this re-presentation. The definition used is now profit for the period before finance costs (being the discount unwind on lease liabilities), taxation, depreciation, amortisation and impairment (“AEBITDA”) and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items. The comparative period AEBITDA is re-presented higher by £2.7 million including the re-presentation of interest income on bank deposits and share of net profit from associates.

Summary of new and amended accounting policies

There were no new or amended accounting policies in the year related to material items.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

1. Material accounting policies continued

Summary of existing accounting policies

Basis of consolidation

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Structured entities are entities that are designed so that their activities are not governed by voting rights. In assessing whether the Group has power over such entities, the Group considers factors such as the purpose and design of the entity, its practical ability to direct the relevant activities of the entity, the nature of the relationship with the entity, and the size of its exposure to the variability of returns of the entity.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The Group applies the acquisition method to account for business combinations. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Acquisition-related costs are recognised in profit or loss as incurred. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Foreign currency translation

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the prevailing rate at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Presentation currency

These consolidated financial statements are presented in GBP sterling, which is the Group's presentation currency.

All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the prevailing rate at the reporting date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the prevailing rate at the reporting date.

Segment reporting

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is the function responsible for allocating resources and assessing performance of the operating segments, has been identified as the Global Leadership Team that makes strategic decisions. For each identified operating segment, the Group has disclosed information for the key performance indicators that are assessed internally to review and steer performance in the Strategic Report.

Transactions between segments are on an arm's length basis in a manner similar to transactions with third parties.

Exceptional items

Exceptional items are the items of income or expense that the Group considers are material, one-off in nature and of such significance that they merit separate presentation in order to aid the reader's understanding of the Group's financial performance. Such items would include profits or losses on disposal of businesses, transaction costs, acquisitions and disposals, major restructuring programmes, significant goodwill or other asset impairments, and other particularly significant or unusual items.

1. Material accounting policies continued

Income recognition

Fee income is recognised in line with IFRS 15 which provides a single, principles-based five-step model to be applied to all contracts with customers:

1) identify the contract with the customer;
2) identify the performance obligations in the contract;
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. The contract signed by the borrower and related terms are clearly identifiable. The performance obligation in the contract is considered to be the funding of the loan through the platform and the transaction price is clearly stated in the borrower's contract. Fees are recognised immediately once loans are fully funded and after the loans are accepted by the borrowers. At this point the performance obligation has been met, there are no clawback provisions and the fee is recognised. Such fees are automatically deducted from the amount borrowed.

Fee income earned from referrals to partner institutions is classified as transaction fees. There are contracts in place with partner institutions with clearly identifiable terms. The performance obligation in the contract is considered to be the referral by the Group and subsequent funding of the referred loan by the partner institution and the transaction price is clearly stated in the referral agreement. Fees are recognised once the referred loan has been funded by the partner institution and accepted by the referred borrower. At this point, the performance obligation has been met and there are no significant clawback provisions.

Fee income earned from servicing third party loans is classified as servicing fees and is a cost of the investor, except in the case of the first year of servicing fees related to CBILS loans, where the government paid the cost. It comprises an annualised fee representing a percentage of outstanding principal. The contractual basis for the servicing fee and transaction price is based on the terms and conditions agreed by investors to the lending platform. The performance obligation is servicing the loans and allocating repayments of the loan parts to the respective lenders. The transaction price is allocated as a percentage of the outstanding principal balance, representing the outstanding performance obligation. Fees are recognised on a monthly basis upon repayment of loan parts. Due to the conditions of the loans, there are no partially completed contracts at the balance sheet date and no advance payments from customers.

Fee income earned from interchange fees from FlexiPay Card is classified as a transaction fee. Foreign exchange fees earned from FlexiPay Card are classified as other fees and are a cost to the FlexiPay Card borrower. A contract is in place with the card provider who remits the fee revenues to the Group. Card fees are recognised immediately at the point of transaction as at this point the performance obligation has been met. Borrowers using their card will "flip" the balance into a FlexiPay loan repayable over three months and for a fee. The fee incurred by borrowers who flip the card balance into a loan is recognised under IFRS 9 from the point of the flip over the life of the loan under the effective interest rate method and is recognised under interest income.

Other fees include excess premium earned from arrangements to buy back defaulted loans from certain institutional investors and performance related fees related to the loans held by certain institutional investors. Other fees also includes income from collections charges levied on the successful recovery of defaulted loans. These are recognised as services are performed or performance obligations are met.

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

Interest income includes:

- interest income recognised on assets held at amortised cost under the effective interest rate method including FlexiPay and interest income on corporate cash and client monies held.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

1. Material accounting policies continued

Income recognition continued

Investment income includes:

- interest income from SME loans and investments in trusts that the Group holds on balance sheet.

Investment expense includes:

- interest payable on funds borrowed to finance the acquisition of underlying loan investments;
- interest payable on bond liabilities held on balance sheet;
- amortisation of costs associated with the issuing of bonds and the credit facility; and
- gains/losses from changes in fair value of interest hedging instruments.

Fair value gains/losses includes:

- gains/losses from changes in the fair value of financial assets and liabilities held on balance sheet.

Cost of funds includes:

- interest payable on funds borrowed to finance the issuing of lines of credit.

Net income recorded in the financial statements is generated in the UK, the US, Germany and the Netherlands. All fees are recognised and measured based on the above income recognition policy.

Administrative expenses

Administrative expenses are recognised as an expense in the statement of comprehensive income in the period in which they are incurred on an accruals basis.

Share-based payments

The Group operates a number of equity-settled share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options and shares) of the Company. The fair value of the employee services received in exchange for the grant of the options and shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options and shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, net income, earnings per share and remaining an employee of the Group over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimate of the number of options and shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares or utilises shares that have been purchased in the market. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The original fair value of the amount exercised is transferred from the share option reserve to the accumulated losses reserve.

The grant by the Company of options and shares over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in investment in subsidiary undertakings, with a corresponding credit to equity in the Parent entity (the "Company") accounts.

Pension obligations

The Group operates a defined contribution pension scheme for employees in the UK and US. The schemes are pension plans under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. Contributions payable to the Group's pension scheme are charged to the statement of comprehensive income in the year to which they relate. The Group has no further payment obligations once the contributions have been paid.

1. Material 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 balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group has established transfer pricing policies and there are mechanisms in place that ensure subsidiaries are remunerated appropriately on an arm's length basis for services provided. It establishes provisions, where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred tax assets for unused tax losses, tax credits and deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for any deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the year-end date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax balances are not discounted.

Dividends

Dividends are recognised when they become legally payable, in accordance with the Companies Act 2006.

Intangible assets

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. Useful lives and amortisation methods are reviewed at the end of each annual reporting period, or more frequently when there is an indication that the intangible asset may be impaired, with the effect of any changes accounted for on a prospective basis. Amortisation commences when the intangible asset is available for use. The residual value of intangible assets is assumed to be zero.

Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the licence period, which is up to five years as at 31 December 2023.

Capitalised development costs

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

- it is technically feasible to complete the build of the platform products so that they will be available for use;
- management intends to complete the build of the platform products for use within the Group;
- there is an ability to use the platform products;
- it can be demonstrated how the platform products will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the platform products are available; and
- the expenditure attributable to the platform products during its development can be reliably measured.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

1. Material accounting policies continued

Intangible assets continued

Capitalised development costs continued

Directly attributable costs that are capitalised as part of the software product include the software development employee and contractor costs. The capitalisation of employee costs is based on the amount of time spent on specific projects which meet the criteria as a proportion of their total time, and this proportion of their salary-related costs is attributed to the applicable projects.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over their estimated useful lives, ranging from three to five years.

Other intangibles

Other intangibles relate to the technology platform and customer relationship (representing fees due on contracted loans expected to be realised in the foreseeable future) acquired on a business combination. These costs are amortised over their estimated useful lives, which do not exceed three years.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	1–3 years
Furniture and fixtures	3–5 years

Leasehold improvements that qualify for recognition as an asset are measured at cost and are presented as part of property, plant and equipment in the non-current assets section on the balance sheet. Depreciation on leasehold improvements is calculated using the straight-line method over the lease term.

Impairment of tangible and intangible assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If this was the case, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

At inception of a contract, the Group assesses whether or not a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When a lease is recognised in a contract the Group recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

1. Material accounting policies continued

Leases continued

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable;
- variable lease payments based on an index or a rate, initially measured using the index or rate at the commencement date; and
- amounts expected to be payable by the Group under residual value guarantee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, which is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses an approach taking the risk-free interest rate adjusted for credit risk for leases held by Funding Circle Holdings plc; and
- makes adjustments specific to the lease for term, country and currency.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and reducing it by the lease payments made. The lease liability and right-of-use asset are remeasured when there is a lease modification.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Extension and termination options are included in a number of property leases in the Group. Management considers the facts and circumstances that may create an economic incentive to exercise an extension or termination option in order to determine whether the lease term should include or exclude such options. Extension or termination options are only included within the lease term if they are reasonably certain to be exercised in the case of extension options and not exercised in the case of termination options.

Considerations include:

- if leasehold improvements are expected to have significant value at the end of the lease term;
- expected costs or business disruption as a result of replacing a lease; and
- significant penalties incurred in order to terminate.

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

When the Group is an intermediate lessor, entering into a sublease, it accounts for the head lease and the sublease separately. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognised on a straight-line basis over the lease term and the Group retains the right-of-use asset deriving from the head lease and the lease liability on the balance sheet.

Amounts due from lessees under finance leases are recognised as receivables equivalent to the Group's net investment in the lease and the right-of-use asset from the head lease is derecognised. Any difference resulting from the derecognition of the right-of-use asset and recognition of the net investment in the sublease is recognised in the consolidated statement of comprehensive income. The head lease liability remains on the balance sheet and interest expense continues to be recognised, while interest income is recognised from the sublease.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

1. Material accounting policies continued

Consolidation of special purpose vehicles ("SPVs")

Subsidiaries are those entities, including structured vehicles, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

The Group assesses whether it controls SPVs and the requirement to consolidate them under the criteria of IFRS 10. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying assets and raising debt on those assets which is used to fund the Group) and uses this control to obtain a variable return (for example, retaining the residual risk on the assets). Structures that do not meet these criteria are not treated as subsidiaries and the assets are derecognised when the rights to the cash flows have ended.

Where the Group manages the administration of its securitised assets and is exposed to the risks and rewards of the underlying assets through its continued investment or where the Group does not retain a direct ownership interest in an SPE, but the Directors have determined that the Group controls those entities based on the criteria of IFRS 10, they are treated as subsidiaries and are consolidated.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost. This is adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the consolidated statement of comprehensive income. The Group's share of movements in other comprehensive income of the investee is recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an indication that the investment in the associate is impaired. If there is such an indication, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Financial instruments

Financial assets

The Group determines the classification of its financial assets at initial recognition. The requirements of IFRS 9 for classification and subsequent measurement are applied, which require financial assets to be classified based on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset:

- financial assets are measured at amortised cost if they are held within a business model, the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest;
- financial assets are measured at fair value through other comprehensive income ("FVTOCI") if they are held within the business model defined as "held to collect and sell", the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest; and
- financial assets that do not meet the criteria to be amortised cost or FVTOCI are measured at fair value through profit or loss ("FVTPL"). In addition, the Group may, at initial recognition, designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

1. Material accounting policies continued

Financial instruments continued

Financial assets continued

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The purchase of any credit-impaired assets is also at fair value after any impairment.

Except for certain investments in SME loans as described below, the Group does not recognise on its balance sheet loans arranged between borrowers and investors as it is not a principal party to the contracts and is not exposed to the risks and rewards of these loans.

With the exception of investment in trusts and co-investments, SME loans (warehouse), certain SME loans (other) and SME loans (securitised), all financial assets are held to collect contractual cash flows.

Following the call option being exercised on the UK and US securitisation vehicles and the repayment of the warehouse borrowings, some of the SME loans were purchased from the vehicles and are held directly in Funding Circle Limited and Funding Circle Marketplace LLC. These loans continue to be held at FVTPL as the business model under which they are held remains to sell the loans. They continue to be presented within SME loans (securitised) and SME loans (warehouse) representing the legacy nature of the loans.

The five types of SME loans held are as follows:

i) SME loans (warehouse) and SME loans (securitised)

During the securitisation programmes previously run by the Group, SME loans were originated in leveraged warehouse vehicles and subsequently sold into securitisation SPVs. By 31 December 2023 the warehouse vehicles had been repaid and the securitisation vehicles unwound with the loans of the vehicles purchased and directly held by subsidiaries of the Group and remaining bond liabilities repaid. The SME loans (warehouse) and SME loans (securitised) are classified reflecting the legacy nature of the loans. These SME loans have been classified as financial assets at fair value through profit or loss because all such loans are acquired principally for selling in the short term and the collection of interest is incidental. They are initially measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

ii) SME loans (other)

The Group has originated PPP loans using the SBA's PPPLF facility and these are held on balance sheet. Additionally, the Group holds investments in certain SME business loans as a result of commercial arrangements with institutional investors and in certain circumstances the Group also buys back loans from investors.

These loans are included in SME loans (other) (see note 11) and are classified as amortised cost (as they are held solely to collect principal and interest payments) and are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. PPP loans are fully guaranteed by the SBA.

SME loans (other) additionally includes loans temporarily funded by the Group in relation to the relaunch of commercial loans which are classified as financial assets at fair value through profit or loss and are held with the intention of selling on to investors. They are initially measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

iii) Lines of credit

Lending through the FlexiPay product is recognised on the balance sheet within lines of credit. This represents the drawn amount of the facilities, net of ECL. The contractual cash flows represent solely payments of principal and interest ("SPPI") and the business model under which they are held is in order to collect the contractual cash flows resulting in the lines of credit being measured initially at fair value and subsequently at amortised cost. The origination fee associated with FlexiPay is recognised under IFRS 9 within interest income at the effective interest rate in the consolidated statement of comprehensive income and is recognised over the expected life of the drawdown.

The FlexiPay lines of credit are held net of expected credit loss allowances under IFRS 9, the methodology and definitions of which align to the Group accounting policy on impairment of financial assets held at amortised cost with the exception of being assessed at the available line of credit level, estimating the utilisation of the line of credit to the estimated point of default and are detailed further within note 14. Additionally, the Group assesses the expected credit loss allowance in relation to undrawn lines of credit, estimating the probability of default, loss given default and exposure at default in relation to these lines of credit were they to be drawn. This loss allowance is recognised within other liabilities in note 13.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

1. Material accounting policies continued

Financial instruments continued

Financial assets continued

iv) Investment in trusts and co-investments

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

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

Investments in trusts are classified at fair value through profit and loss. They are initially recognised at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

The Group recognises transaction fee income on origination of loans within the trust and service fee income on the assets within the trust, eliminating its proportional ownership share of the service fees. A scheme lender fee is charged in relation to the origination of CBILS and RLS loans and investment income is recognised in relation to returns on the investment.

Other financial assets

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

Net investments in sublease receivables are recognised as other receivables representing the net present value of the lease payment receivable. Interest is recognised within other costs in the statement of comprehensive income.

Cash and cash equivalents are classified as amortised cost with the exception of money market funds that are classified as FVTPL. Cash and cash equivalents include cash in hand, deposits held at call with banks, money market funds and other short-term highly liquid investments with original maturities of three months or less. The carrying amount of these assets approximates to their fair value.

Impairment of financial assets held at amortised cost

The Group applies the impairment requirements of IFRS 9. The IFRS 9 impairment model requires a three-stage approach:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ("ECLs") (that is, expected losses arising from the risk of default in the next 12 months) are recognised and interest income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit-impaired. For these assets, lifetime ECLs (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised, and interest income is still calculated on the gross carrying amount of the asset. The Group assumes there has been a significant increase in credit risk if outstanding amounts on the financial assets exceed 30 days, in line with the rebuttable presumption per IFRS 9 at which point the assets are considered to be stage 2.
- Stage 3 consists of financial assets that are credit-impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For these assets, lifetime ECLs are also recognised, but interest income is calculated on the net carrying amount (that is, net of the ECL allowance). The Group defines a default, classified as stage 3, as an asset with any outstanding amounts exceeding a 90-day due date, which reflects the point at which the asset is considered to be defaulted. An account that is deemed to be fraudulent (i.e third party application fraud) is written off at point of identification.
- In some circumstances where assets are bought back by the Group, the financial asset associated with the purchase meets the definition of purchased or originated credit-impaired ("POCI"), and impairment is therefore based on lifetime ECLs.

1. Material accounting policies continued

Financial instruments continued

Other financial assets continued

The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost and recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the financial assets expire or the Group has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients.

The Group derecognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Financial liabilities

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest-bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Bank borrowings

Bank borrowings (drawdowns under the credit facilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently measured at amortised cost using the effective interest rate method.

Bonds

Bonds represent the bond liabilities which the Group must pay to the bond holders from the cash flows generated from the SME loans (securitised) held on balance sheet. The liability excludes any amount of bonds that the Group has retained as these are eliminated upon consolidation.

IFRS 9 permits a company to elect to fair value the bond liabilities where there is an accounting mismatch. In the Group's case the associated assets generating the cash flows to pay the bonds are the SME loans (securitised) which are measured at fair value through profit and loss.

As the cash flows from the SME loans were used to repay the rated bond tranches in advance of the unrated bonds, the Group does not consider there to be a significant accounting mismatch as default levels impact the unrated bonds first. Therefore the rated bonds are measured at amortised cost. However, as the unrated bonds are most affected by fair value movements in the SME loans, the Group elected to measure the unrated tranches of bonds at fair value through profit and loss to eliminate the accounting mismatch. Following the unwind of the UK SPV entity during the year ended 31 December 2022, there are no externally held bond liabilities measured at FVTPL remaining on a consolidated Group basis.

See note 14 for details of the fair value methodology and interest rate risk.

Transaction costs associated with the issuance of bonds are deferred to the balance sheet and recognised over the lifetime of the bonds using the effective interest rate method.

Provisions

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

1. Material accounting policies continued

Loan repurchases

Loan repurchase contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Loan repurchase contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the contract. The liability is subsequently measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation. The expected credit loss model is used to measure and recognise the financial liability.

Share capital

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

Earnings/(loss) per share

The Group presents basic and diluted earnings/(losses) per share ("EPS") for its ordinary shares. Basic and diluted EPS are calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year excluding shares held as own shares in the Group's Employee Benefit Trusts.

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

Shares held by the Employee Benefit Trust and Share Incentive Plan Trust

The Company has established an offshore Employee Benefit Trust ("EBT") and an onshore Share Incentive Plan ("SIP") Trust.

The EBT and SIP Trust provide for the issue of shares to Group employees principally under share option schemes and SIP respectively. The Group has control of the EBT and SIP Trust and therefore consolidates the Trusts in the Group financial statements. Since 2022, the Group has purchased its own shares in the market in order to satisfy the exercise of employee share option schemes. Shares which are purchased are recognised at cost and are treated as a deduction to shareholders' equity. No gain or loss is recognised in the income statement on the purchase or utilisation of equity shares.

Reserves

Foreign exchange reserve

The foreign exchange reserve represents the cumulative foreign currency translation movement on the assets and liabilities of the Group's international operations at year-end exchange rates and on the profit and loss items from average exchange rates to year-end exchange rates.

Share options reserve

The share options reserve represents the cumulative charges to income under IFRS 2 Share-based Payments on all share options and schemes granted, net of share option exercises. The costs are transferred to retained earnings when options are exercised.

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

The significant judgements and estimates applied by the Group in the financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2022.

Critical judgements

Loans originated through the platform

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

Key sources of estimation uncertainty

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

Expected credit loss impairment of FlexiPay lines of credit (note 14)

At 31 December 2023, the Group held £55.4 million of drawn FlexiPay lines of credit and £157.3 million of undrawn lines of credit, gross of expected credit loss impairment allowances.

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

An expected credit loss impairment allowance is held against the lines of credit of £6.8 million (£5.4 million related to drawn lines of credit and £1.4 million related to undrawn).

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

The area most sensitive to estimation uncertainty is the probability of default related to stage 1 lines of credit which is based on actual experience and the probability weighting of the forward-looking scenarios utilised. Currently a baseline scenario, upside scenario and downside scenario are utilised which are probability weighted 70% baseline, 10% upside and 20% downside, which provide a blended stage 1 probability of default of 4.3%. If 100% probability weighting was to be applied to the upside scenario the probability of default related to stage 1 lines of credit would decrease by 100 bps to 3.3% and the expected credit loss impairment provision would decrease by £0.7 million (£0.4 million on drawn lines of credit and £0.3 million on undrawn lines of credit). If a 100% probability weighting was to be applied to the downside scenario, the stage 1 probability of default would increase 150 bps to 5.8% and the expected credit loss impairment would increase by £1.0 million (£0.5 million on drawn lines of credit and £0.5 million on undrawn lines of credit). It is considered that the above sensitivities represent the range of reasonably possible outcomes in relation to the probability of default on stage 1 FlexiPay lines of credit.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

3. Segmental information

IFRS 8 Operating Segments requires the Group to determine its operating segments based on information which is used internally for decision making. Based on the internal reporting information and management structures within the Group, it has been determined that there are four operating segments, three of which are term loans businesses arranged geographically and the fourth which is a line of credit business, FlexiPay, based in the United Kingdom. Reporting on this basis is reviewed by the Global Leadership Team ("GLT") which is the chief operating decision maker ("CODM"). The GLT is made up of the Executive Directors and other senior management and is responsible for the strategic decision making of the Group.

The four reportable segments are as shown in the following table. The other segment includes the Group's term loan businesses in Germany and the Netherlands.

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

Net income

	31 December 2023					31 December 2022 (re-presented, see note 1)				
	Loans			**FlexiPay**	**Total**	Loans			FlexiPay	Total
	United Kingdom £m	**United States £m**	**Other £m**	**United Kingdom £m**	**£m**	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
Transaction fees	**65.2**	**23.4**	**—**	**0.1**	**88.7**	59.8	17.7	—	—	77.5
Servicing fees	**38.8**	**3.4**	**0.2**	**—**	**42.4**	44.8	2.4	0.7	—	47.9
Other fees	**6.3**	**0.6**	**0.1**	**—**	**7.0**	2.4	1.0	0.7	—	4.1
Interest income (including FlexiPay)	**7.5**	**1.3**	**0.1**	**7.8**	**16.7**	2.0	0.5	0.2	1.5	4.2
Operating income	**117.8**	**28.7**	**0.4**	**7.9**	**154.8**	109.0	21.6	1.6	1.5	133.7
Net investment income	**3.6**	**3.8**	**—**	**—**	**7.4**	9.8	7.5	—	—	17.3
Total income	**121.4**	**32.5**	**0.4**	**7.9**	**162.2**	118.8	29.1	1.6	1.5	151.0
Fair value gains/(losses)	**3.1**	**5.6**	**—**	**—**	**8.7**	(2.4)	7.2	—	—	4.8
Cost of funds	**—**	**—**	**—**	**(2.7)**	**(2.7)**	—	—	—	—	—
Net income	**124.5**	**38.1**	**0.4**	**5.2**	**168.2**	116.4	36.3	1.6	1.5	155.8

Segment profit/(loss)

	31 December 2023					31 December 2022 (re-presented, see note 1)				
	Loans			**FlexiPay**	**Total**	Loans			FlexiPay	Total
	United Kingdom £m	**United States £m**	**Other £m**	**United Kingdom £m**	**£m**	United Kingdom £m	United States £m	Other £m	United Kingdom £m	£m
Adjusted EBITDA	**21.3**	**(10.6)**	**(0.2)**	**(14.4)**	**(3.9)**	13.8	(3.1)	2.8	(4.0)	9.5
Discount unwind on lease liabilities	**(0.2)**	**(0.4)**	**—**	**—**	**(0.6)**	(0.2)	(0.7)	—	—	(0.9)
Depreciation, amortisation and impairment	**(11.3)**	**(10.3)**	**—**	**(1.3)**	**(22.9)**	(11.7)	(5.2)	(0.1)	—	(17.0)
Share-based payments and social security costs	**(3.3)**	**(1.8)**	**—**	**(0.5)**	**(5.6)**	(3.9)	(0.8)	—	—	(4.7)
Foreign exchange (losses)/gains	**—**	**(0.2)**	**—**	**—**	**(0.2)**	0.2	—	—	—	0.2
Profit/(loss) before tax	**6.5**	**(23.3)**	**(0.2)**	**(16.2)**	**(33.2)**	(1.8)	(9.8)	2.7	(4.0)	(12.9)

4. Operating expenses

	31 December 2023 £m	31 December 2022 (re-presented, see note 1) £m
Depreciation	**4.3**	5.1
Amortisation	**12.4**	10.1
Rental income and other recharges	**(0.2)**	(1.0)
Operating lease rentals:		
– Land and buildings	**0.4**	0.3
Employment costs (including contractors)	**94.4**	85.9
Marketing costs (excluding employment costs)	**48.4**	38.4
Data and technology	**9.3**	9.7
Expected credit loss impairment charge/(credit)	**4.4**	(1.5)
Impairment of intangible and tangible assets and investment in sublease (see notes 8, 9 and 14)	**6.2**	1.8
Other expenses	**21.8**	19.9
Total operating expenses	**201.4**	168.7

Auditors' remuneration

	31 December 2023 £m	31 December 2022 £m
Audit fees		
– Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**0.5**	0.5
– Fees payable to the Company's auditors and its associates for the statutory audit of the financial statements of subsidiaries of the Company	**0.5**	0.3
Total audit fees	**1.0**	0.8
Non-audit service fees		
– Audit-related assurance services	**0.3**	0.3
– Other non-assurance services	**0.1**	0.1
Total non-audit service fees	**0.4**	0.4

5. Employees

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

	2023 Number	2022 Number
UK	**666**	686
FlexiPay	**81**	20
US	**203**	177
Other	**9**	10
	959	893

In addition to the employees above, the average monthly number of contractors during the year was 115 (2022: 142).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

5. Employees continued

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

	31 December 2023 £m	31 December 2022 £m
Wages and salaries	**80.9**	72.2
Social security costs	**7.8**	7.6
Pension costs	**2.2**	1.9
Share-based payments	**5.6**	4.7
	96.5	86.4
Contractor costs	**9.2**	12.0
Less: capitalised development costs	**(11.3)**	(12.5)
Employment costs net of capitalised development costs	**94.4**	85.9

6. Income tax charge/(credit)

The Group is subject to all taxes applicable to a commercial company in its countries of operation. The UK (losses)/profits of the Company are subject to UK income tax at the standard corporation tax rate of 25% (23.5% is applied to the table below for 2023 as a blended rate for the year, as the increase in the statutory corporation tax rate to 25% was effective from 1 April 2023) (2022: 19%).

	31 December 2023 £m	31 December 2022 £m
Current tax		
UK		
Current tax on (losses)/profits for the year	**0.3**	0.3
Adjustment in respect of prior years	**(2.0)**	(0.3)
	(1.7)	—
US and Other		
Current tax on (losses)/profits for the year	**0.3**	0.4
Adjustment in respect of prior years	**(0.1)**	0.5
	0.2	0.9
Total current tax (credit)/charge	**(1.5)**	0.9
Deferred tax		
UK		
Deferred tax on (losses)/profits for the year	**—**	—
Adjustment in respect of prior years	**—**	—
	—	—
US and Other		
Deferred tax on (losses)/profits for the year	**6.6**	(6.9)
Adjustments in respect of prior years	**—**	—
	6.6	(6.9)
Total deferred tax charge/(credit)	**6.6**	(6.9)
Total tax charge/(credit)	**5.1**	(6.0)

The above current tax charge represents the expected tax on the Research and Development Expenditure Credit ("RDEC") receivable for 2023 and US state taxes. In the prior year, the tax charge represents the tax liability on the Group's taxable profit, including state taxes, and the amount of tax deducted from the RDEC receivable for 2022.

The adjustment in respect of prior years in the UK relates to an expected tax refund from HMRC of £2.0 million following the resubmission of a tax return for 2021. The deferred tax movement represents the write off of the deferred tax asset in respect of uncertainty related to the use of US losses.

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

6. Income tax charge/(credit) continued

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

	31 December 2023 £m	31 December 2022 £m
Loss before taxation	**(33.2)**	(12.9)
Taxation on loss at 23.5% (2022: 19%)	**(7.8)**	(2.4)
Effects of:		
Research and development	**0.3**	0.3
Effect of foreign tax rates	**0.3**	0.3
Non-taxable/non-deductible expenses	**0.7**	1.0
Unrecognised timing differences	**1.7**	5.3
Unrecognised tax losses accumulated/(utilised)	**5.6**	(4.0)
Adjustment in respect of prior years	**(2.1)**	0.2
Deferred tax assets derecognised/(recognised)	**6.6**	(6.9)
Impairment charge	**(0.2)**	0.2
Total tax charge/(credit)	**5.1**	(6.0)

The Group is taxed at different rates depending on the country in which the profits arise. The key applicable tax rates include the UK 23.5%, the US 21%, Germany 30% and the Netherlands 25%. The effective tax rate for the year was -15.4% (2022: 46.5%).

The statutory UK corporation tax rate is currently 25% (effective 1 April 2023). There is a blended rate in the UK of 23.5% for 2023.

The Group has derecognised the deferred tax asset relating to the use of the historic tax losses in the US (2022: asset recognised of £6.9 million in respect of £32.9 million of the US federal losses).

The Group utilised tax losses in the US for the first time in 2021. The Group's existing transfer pricing arrangements between the UK and US currently entitle the US to earn an agreed profit margin. Following the granting of a provisional SBA license in the US, the nature of the transfer pricing arrangements between the UK and US are expected to change. This, together with anticipated near-term trading losses in the US means that there are not expected to be taxable profits to utilise brought forward trading losses in the near term. Accordingly the deferred tax asset associated with brought forward US trading losses has been derecognised.

	31 December 2023 £m	31 December 2022 £m
Property, plant and equipment	**(1.5)**	(2.8)
Carry forward losses (UK)	**1.5**	2.8
Carry forward losses (US)	**—**	6.9
Recognised deferred tax	**—**	6.9

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

6. Income tax charge/(credit) continued

Unrecognised deferred tax

	31 December 2023 £m	31 December 2022 £m
Property, plant and equipment	**22.8**	17.4
Carry forward losses	**183.4**	133.3
Deferred stock options	**20.5**	18.5
US R&D credit	**2.2**	2.3
US fair value adjustments	**40.7**	47.1
Other	**0.4**	0.3
Unrecognised deferred tax[1]	**270.0**	218.9

1. Balances presented in table above are gross timing differences and are not tax effected.

Based on the temporary differences, there are total unrecognised deferred tax assets of £62.2 million (2022: £50.1 million).

The Group has unrelieved tax losses of £183.4 million (2022: £177.0 million) that are available for offset against future taxable profits. Of these, there are £183.4 million (2022: £133.3 million) of unrecognised tax losses for deferred tax purposes. The difference between these two loss balances was recognised as a deferred tax asset. There are £68.0 million of losses carried forward in the US of which £4.1 million will expire in 2035, £22.6 million will expire in 2036 and the remaining balance of £41.3 million have no expiry period.

There are £96.1 million of German losses (of which £48.3 million relate to federal losses and £47.8 million relate to trade tax losses) that can no longer be used as the tax residence of the German-incorporated entities has changed to the UK. There are £115.4 million losses which relate to the UK.

Factors affecting the tax charge in future years

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

7. Loss per share

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

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

There is no difference in the weighted average number of shares used in the calculation of basic and diluted loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

The following table reflects the loss and share data used in the basic and diluted loss per share computations:

	31 December 2023	31 December 2022
Loss for the year (£m)	**(38.3)**	(6.9)
Weighted average number of ordinary shares in issue (million)	**344.4**	348.6
Basic and diluted loss per share	**(11.1)p**	(2.0)p

8. Intangible assets

	Capitalised development costs £m	Computer software £m	Other intangibles £m	Total £m
Cost				
At 1 January 2022	49.0	0.9	1.2	51.1
Exchange differences	1.9	—	—	1.9
Additions	12.7	—	—	12.7
Disposals	(8.8)	(0.1)	—	(8.9)
At 31 December 2022	54.8	0.8	1.2	56.8
At 1 January 2023	54.8	0.8	1.2	56.8
Exchange differences	(0.8)	—	—	(0.8)
Additions	11.3	0.2	—	11.5
Disposals	(4.1)	(0.6)	—	(4.7)
At 31 December 2023	**61.2**	**0.4**	**1.2**	**62.8**
Accumulated amortisation				
At 1 January 2022	24.4	0.6	1.2	26.2
Exchange differences	1.2	—	—	1.2
Charge for the year	10.0	0.1	—	10.1
Disposals	(8.8)	(0.1)	—	(8.9)
At 31 December 2022	26.8	0.6	1.2	28.6
At 1 January 2023	26.8	0.6	1.2	28.6
Exchange differences	(0.5)	0.1	—	(0.4)
Charge for the year	12.3	0.1	—	12.4
Impairment	3.9	—	—	3.9
Disposals	(4.1)	(0.6)	—	(4.7)
At 31 December 2023	**38.4**	**0.2**	**1.2**	**39.8**
Carrying amount				
At 31 December 2023	**22.8**	**0.2**	—	**23.0**
At 31 December 2022	28.0	0.2	—	28.2

Intangible assets of £3.9 million (2022: £nil) predominantly related to the US business have been fully impaired. This is as a result of the annual impairment review assessment of each cash generating unit. Given the uncertainty as to the near-term cash flows of the US business, the value in use assessment did not support the non-financial assets and the capitalised development costs of the US were impaired.

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

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

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

	31 December 2023 £m	31 December 2022 £m
Property, plant and equipment (owned)	**1.7**	2.7
Right-of-use assets	**3.3**	7.3
	5.0	10.0

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

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

Reconciliation of amount recognised in the balance sheet

	Leasehold improvements £m	Computer equipment £m	Furniture and fixtures £m	Right-of-use assets (property) £m	Total £m
Cost					
At 1 January 2022	4.7	2.7	1.9	31.0	40.3
Disposals	—	(0.8)	—	—	(0.8)
Additions[1]	0.5	1.0	0.1	0.7	2.3
Exchange differences	—	0.1	0.1	1.0	1.2
At 31 December 2022	5.2	3.0	2.1	32.7	43.0
At 1 January 2023	5.2	3.0	2.1	32.7	43.0
Disposals	—	(1.1)	—	—	(1.1)
Additions[1]	—	0.7	—	0.2	0.9
Exchange differences	—	—	—	(0.6)	(0.6)
Derecognition of right-of-use assets	—	—	—	—	—
At 31 December 2023	**5.2**	**2.6**	**2.1**	**32.3**	**42.2**
Accumulated depreciation					
At 1 January 2022	3.2	1.9	1.5	19.6	26.2
Disposals	—	(0.8)	—	—	(0.8)
Charge for the year	0.7	0.7	0.2	3.5	5.1
Impairment	—	—	—	1.8	1.8
Exchange differences	—	0.1	0.1	0.5	0.7
At 31 December 2022	3.9	1.9	1.8	25.4	33.0
At 1 January 2023	3.9	1.9	1.8	25.4	33.0
Disposals	—	(1.1)	—	—	(1.1)
Charge for the year	0.7	0.8	0.1	2.7	4.3
Impairment	—	0.1	0.1	1.3	1.5
Exchange differences	(0.1)	—	—	(0.4)	(0.5)
Derecognition of right-of-use assets	—	—	—	—	—
At 31 December 2023	**4.5**	**1.7**	**2.0**	**29.0**	**37.2**
Carrying amount					
At 31 December 2023	**0.7**	**0.9**	**0.1**	**3.3**	**5.0**
At 31 December 2022	1.3	1.1	0.3	7.3	10.0

1. Leasehold improvement and right-of-use asset additions in the year are non-cash in nature.

Certain right-of-use assets related to the US San Francisco office have been sublet under an operating sublease. Due to a further weakening of the San Francisco commercial property market, the estimated cash flows on the sublet no longer support the carrying value of the asset. As a result, an impairment of £1.3 million was recognised in the year ended 31 December 2023 (2022: £1.8 million).

Property, plant and equipment of £0.2 million (2022: £nil) related to the US business has been fully impaired. See note 8 for further details of the driver of this impairment.

Lease liabilities

Amounts recognised on the balance sheet were as follows:

	31 December 2023 £m	31 December 2022 £m
Current	**7.2**	7.2
Non-current	**5.4**	12.6
Total	**12.6**	19.8

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

Lease liabilities continued

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

	31 December 2023 £m	31 December 2022 £m
Depreciation charge of right-of-use assets (property)	**2.7**	3.5
Interest expense (included in operating expenses)	**0.6**	0.9
Expense relating to short-term leases and leases of low-value assets	**0.4**	0.4

The total cash outflow for leases (excluding short-term and low-value leases) in 2023 was £7.2 million (2022: £7.3 million).

A maturity analysis illustrating the undiscounted contractual cash flows of lease liabilities is included within the liquidity risk disclosure within note 14.

As at 31 December 2023, the potential future undiscounted cash outflows that have not been included in the lease liability, due to lack of reasonable certainty the lease extension options might be exercised, amounted to £nil (2022: £nil).

10. SME loans and lines of credit

	31 December 2023 £m	31 December 2022 £m
Non-current		
SME loans (other) – amortised cost	**6.7**	24.8
Investment in trusts and co-investments – FVTPL	**25.2**	28.7
Total non-current	**31.9**	53.5
Current		
Lines of credit – amortised cost	**50.0**	16.0
SME loans (other) – FVTPL	**0.9**	20.9
SME loans (warehouse) – FVTPL	**1.3**	2.4
SME loans (securitised) – FVTPL	**16.4**	45.8
Total current	**68.6**	85.1
Total	**100.5**	138.6

11. Trade and other receivables

	31 December 2023 £m	31 December 2022 £m
Other receivables	**1.4**	3.4
Non-current trade and other receivables	**1.4**	3.4
Trade receivables	**0.4**	0.4
Other receivables	**7.3**	5.3
Prepayments	**5.2**	3.7
Accrued income	**5.3**	4.8
Rent and other deposits	**2.2**	2.3
Current trade and other receivables	**20.4**	16.5
	21.8	19.9

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

No trade receivables were overdue or impaired.

Included in rent and other deposits are £1.6 million of rental deposits (2022: £1.3 million) in respect of the Group's property leases which expire over the next five years.

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

12. Trade and other payables

	31 December 2023 £m	31 December 2022 £m
Trade payables	**2.4**	2.5
Other taxes and social security costs	**4.2**	5.0
Other creditors[1]	**32.6**	9.7
Accruals and deferred income	**15.1**	14.6
	54.3	31.8

1. Other creditors includes £30.7 million (2022: £7.5 million) due to the British Business Bank (BBB) primarily related to scheme lender fees collected from investors associated with government-guaranteed products.

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

13. Provisions and other liabilities

	Dilapidation £m	Loan repurchase £m	Restructuring[1] £m	Other[1] £m	Total £m
At 1 January 2022	0.6	2.2	0.2	1.1	4.1
Exchange differences	—	0.1	—	0.1	0.2
Additional provision/liability	0.5	—	—	0.5	1.0
Amount utilised	—	(0.9)	(0.2)	(0.2)	(1.3)
Amount reversed	—	(0.9)	—	(1.0)	(1.9)
At 31 December 2022	1.1	0.5	—	0.5	2.1
Exchange differences	—	—	—	—	—
Additional provision/liability	—	0.2	—	1.2	1.4
Amount utilised	—	(0.4)	—	(0.3)	(0.7)
Amount reversed	—	(0.2)	—	—	(0.2)
At 31 December 2023	**1.1**	**0.1**	**—**	**1.4**	**2.6**

1. Other provisions includes provisions for operational buybacks in the comparative period. £1.4 million (2022: £0.3 million) of expected credit loss impairment allowance related to undrawn FlexiPay lines of credit is included within other. See notes 14 and 25.

	31 December 2023 £m	31 December 2022 £m
Current provisions and other liabilities	**1.5**	1.0
Non-current provisions and other liabilities	**1.1**	1.1
	2.6	2.1

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

14. Financial risk management

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

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

Risk factors

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

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

14. Financial risk management continued

Principal financial instruments

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

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

Categorisation of financial assets and financial liabilities

The tables show the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2023:

Assets	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
SME loans (other)	0.9	6.7	—	7.6
SME loans (warehouse)	1.3	—	—	1.3
SME loans (securitised)	16.4	—	—	16.4
Lines of credit	—	50.0	—	50.0
Investment in trusts and co-investments	25.2	—	—	25.2
Trade and other receivables	0.8	15.8	—	16.6
Cash and cash equivalents	150.1	71.3	—	221.4
	194.7	143.8	—	338.5

Liabilities	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
Trade and other payables	—	(35.0)	—	(35.0)
Loan repurchase liability	—	—	(0.1)	(0.1)
Bank borrowings	—	(56.9)	—	(56.9)
Bonds	—	—	—	—
Lease liabilities	—	(12.6)	—	(12.6)
	—	(104.5)	(0.1)	(104.6)

Notes forming part of the consolidated financial statements continued

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14. Financial risk management continued

Principal financial instruments continued

Categorisation of financial assets and financial liabilities continued

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

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

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

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, trade and other receivables, certain SME loans (other), FlexiPay lines of credit, bank borrowings, lease liabilities, certain bonds and trade and other payables. Due to their nature, the carrying value of each of the above financial instruments approximates to their fair value.

Other financial instruments

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

Financial instruments measured at fair value

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

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

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

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

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

14. Financial risk management continued

Financial instruments measured at fair value continued

31 December 2023	Fair value measurement using Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	Total £m
Financial assets				
SME loans (warehouse)	—	—	**1.3**	**1.3**
SME loans (securitised)	—	—	**16.4**	**16.4**
SME loans (other)	—	—	**0.9**	**0.9**
Investment in trusts and co-investments	—	—	**25.2**	**25.2**
Trade and other receivables	**0.8**	—	—	**0.8**
Cash and cash equivalents	**150.1**	—	—	**150.1**
	150.9	—	**43.8**	**194.7**

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

The fair value of all SME loans held at fair value has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the SME loans (warehouse) was £1.3 million at 31 December 2023 (2022: £2.4 million).

The fair value of SME loans (securitised) represents loan assets in the securitisation vehicles and legacy loans of this nature. The estimated fair value and carrying amount of the SME loans (securitised) was £16.4 million at 31 December 2023 (2022: £45.8 million).

Investment in trusts and co-investments represents the Group's investment in the trusts and other vehicles used to fund CBILS, RLS and certain commercial loans and is measured at fair value through profit and loss. The government-owned British Business Bank will guarantee up to 80% of the balance of CBILS loans in the event of default (and between 70% and 80% of RLS loans). The estimated fair value and carrying amount of the investment in trusts and co-investments was £25.2 million at 31 December 2023 (2022: £28.7 million).

The fair value of SME loans (other) represents loan assets temporarily funded by the Group in relation to the commercial loans. The estimated fair value and carrying amount of the SME loans (other) was £0.9 million (2022: £20.9 million).

The most relevant significant unobservable inputs relate to the default rate estimate and discount rates applied to the fair value calculation. However, it was determined that the reasonably possible range of outcomes from these inputs into the estimates are not material to the accounts.

Notes forming part of the consolidated financial statements continued

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14. Financial risk management continued

Financial instruments measured at fair value continued

Since 31 December 2022, the assumptions related to estimating fair value have been revised. The expected increases in defaults due to the macro environment of inflationary cost pressures experienced by small businesses and their customers in the year did not materialise to the extent expected as base rates peaked and plateaued and borrowers remained resilient. This has led to favourable observed performance with lower defaults and stable recoveries relative to expectations on many of the portfolios particularly the legacy SME loans (securitised) in the US. The expectation of a macro stress is now expected to occur later and grow at a slower pace, with a more marked impact in the UK from forward looking assumption changes than in the US. This has led to a lower lifetime cumulative default expectation and a higher relative estimation of fair value compared to the carrying value of the loans than at 31 December 2022.

With respect to investments in trusts and co-investments, where the Group holds a small pari-passu co-investment structured through leveraged warehouse vehicles which are majority owned by the majority equity investor, the increase in interest rates over the last year decreased the estimated fair value in certain of these structures which were not hedged. This was caused by floating rate interest paid on senior borrowing facilities within the vehicle expected to decrease the returns to the equity holders compared to previous expectations. The nature of the vehicles is such that, while the loans may be government guaranteed, an uptick in defaults in combination with higher borrowing costs will still reduce the lifetime return to the equity holder and the inbuilt mechanisms of the vehicles which prioritise protection of repayments to the senior lender could lead to cash flowing to the equity holder later and as a result the estimated fair value of the investment has decreased.

RLS and certain commercial loans which the Group holds through investments in trusts, have additionally underperformed against expectations, even relative to unstressed assumptions. A revision to the underlying performance assumptions of this cohort of loans partially offset the favourable performance of CBILS loans and the favourable changes in UK macro assumptions.

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

The result of the various factors outlined above is an £8.7 million net fair value gain during the year primarily driven by favourable performance of legacy securitisation loans relative to expectations of stressed performance over the year, however as these loans continue to amortise they are expected to become less sensitive to estimation uncertainty.

Sensitivities to unobservable assumptions in the valuation of SME loans and money market funds within cash and cash equivalents are not disclosed as reasonably possible changes in the current assumptions inclusive of default rates, discount rates and recovery rates would not be expected to result in material changes in the carrying values.

Fair value movements on SME loans (warehouse), SME loans (securitised), SME loans (other), investments in trusts and bonds (unrated) are recognised through the profit and loss account in fair value gains/(losses).

14. Financial risk management continued

Financial instruments measured at fair value continued

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

	SME loans (warehouse) £m	SME loans (securitised) £m	Bonds (unrated) £m	Investment in trusts and co-investments £m	SME loans (other) £m
At 1 January 2022	3.2	148.1	(12.8)	39.1	—
Additions	—	—	—	6.4	22.6
Repayments	(2.8)	(86.8)	16.3	(10.0)	(0.8)
Disposal	—	(39.5)	—	—	—
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	2.0	14.7	(3.5)	(7.0)	(1.4)
Foreign exchange gain	—	9.3	—	0.2	0.5
At 31 December 2022	2.4	45.8	—	28.7	20.9
Additions	—	—	—	1.8	11.9
Repayments	(2.0)	(35.0)	—	(6.6)	(0.6)
Disposal	—	—	—	—	(30.4)
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	1.0	6.8	—	1.3	(0.4)
Foreign exchange loss	(0.1)	(1.2)	—	—	(0.5)
At 31 December 2023	**1.3**	**16.4**	**—**	**25.2**	**0.9**

Financial risk factors

Credit risk

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

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

	31 December 2023 £m	31 December 2022 £m
Non-current		
SME loans (other)	**6.7**	24.8
Investment in trusts and co-investments	**25.2**	28.7
Trade and other receivables:		
– Other receivables	**1.4**	3.4
Current		
Lines of credit	**50.0**	16.0
SME loans (other)	**0.9**	20.9
SME loans (warehouse)	**1.3**	2.4
SME loans (securitised)	**16.4**	45.8
Trade and other receivables:		
– Trade receivables	**0.4**	0.4
– Other receivables	**7.3**	5.3
– Accrued income	**5.3**	4.8
– Rent and other deposits	**2.2**	2.3
Cash and cash equivalents	**221.4**	177.7
Total gross credit risk exposure	**338.5**	332.5
Less bank borrowings and bond liabilities[1]	**(56.9)**	(46.3)
Total net credit risk exposure	**281.6**	286.2

1. Included within bank borrowings are £2.2 million (2022: £22.6 million) in relation to draw downs on the PPPLF and £54.7 million related to the FlexiPay warehouse.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

14. Financial risk management continued

Financial risk factors continued

Credit risk continued

In addition, the Group is subject to financial guarantees it has issued to buy back loans detailed in the loan repurchase liability in note 13. The Group's maximum exposure to credit risk on financial guarantees were every eligible loan required to be bought back would be £0.4 million (2022: £2.8 million).

An expected credit loss allowance related to undrawn lines of credit on the FlexiPay product of £1.4 million (2022: £0.3 million) is held within provisions and other liabilities. The Group's maximum exposure to credit risk on the undrawn lines of credit if they were all to be fully drawn would be £157.3 million (2022: £41.6 million).

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

SME loans (other) includes £0.9 million (2022: £20.9 million) loans originated by the Group with the intention of selling onwards, which are held at FVTPL and are therefore disclosed as current.

Under IFRS 9, the Group is required to provide for loans measured at amortised cost under the expected credit loss ("ECL") model. The impairment related to each loan is based on the ECLs associated with the probability of default of that loan in the next 12 months unless there has been a significant increase in credit risk of that loan since origination. The Group assumes there has been a significant increase in credit risk if outstanding amounts on the loan investment exceed 30 days, in line with the rebuttable presumption per IFRS 9.

The Group defines a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date, which reflects the point at which the loan is considered to be credit impaired. In some circumstances where loans are bought back by the Group, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired ("POCI"); this element of the impairment is therefore based on lifetime ECLs.

Lines of credit utilises the same default definition and probability of default under IFRS 9, however, they are assessed based on 12-month probability of default at the overall available line of credit level, estimating the expected utilisation of the line of credit at the estimated point of default. The expected credit loss impairment associated with undrawn lines of credit is disclosed within other liabilities in note 13 and in note 25.

SME loans (other) includes PPP loans funded by the use of the PPPLF. The loans are guaranteed by the US government in the event of default and the loans are anticipated to be forgiven. At the point of default and subsequent collection of the guarantee or point of forgiveness, the loan and the respective borrowings under the PPPLF are extinguished. SME loans (other) also includes loans which have been brought back from investors and are held at amortised cost.

Lines of credit comprises £50.0 million (2022: £16.0 million) of drawn amounts through the FlexiPay product net of expected credit loss impairment.

The gross principal value of SME loans (other) is £21.4 million (2022: £39.6 million) and drawn lines of credit held at amortised cost is £55.4 million (2022: £17.6 million), totalling £76.8 million (2022: £57.2 million), and an allowance for expected credit losses of £14.7 million (2022: £14.8 million) and £5.4 million (2022: £1.6 million) respectively, totalling £20.1 million (2022: £16.4 million), is held against these loans and drawn lines of credit as detailed below.

An impairment charge of £3.3 million (2022: impairment credit of £0.9 million) was recognised through the statement of comprehensive income in the year to 31 December 2023 within (provision)/credit for expected credit losses in the income statement related to drawn lines of credit and SME loans (other).

Additionally, an expected credit loss impairment charge was recognised relating to undrawn FlexiPay lines of credit of £1.1 million (31 December 2022: £0.3 million) and an expected credit loss impairment credit of £0.4 million (31 December 2022: credit of £0.9 million) related to the loan repurchase liability were recognised as detailed in notes 13 and 14.

The Group bands each loan investment at origination using an internal risk rating and assesses credit losses on a collective portfolio basis by product. Credit risk grades are not reported to management on an ongoing basis and the only borrower specific information that is produced and used is past due status. There is no significant concentration of credit risk to specific industries or geographical regions.

	Performing: 12-month ECL £m	Underperforming: Lifetime ECL £m	Non-performing: Lifetime ECL £m	POCI: Lifetime ECL £m	Total £m
At 1 January 2022	0.6	0.3	1.1	13.3	15.3
Impairment against new lending and purchased assets	0.1	—	—	1.1	1.2
Exchange differences	0.1	—	0.1	1.0	1.2
Impairment against loans transferred from/(to) performing	(0.1)	0.3	0.3	—	0.5
Loans repaid	(0.3)	(0.3)	(0.5)	(1.2)	(2.3)
Change in probability of default or loss given default assumptions	0.7	—	(0.1)	(0.1)	0.5
At 31 December 2022	1.1	0.3	0.9	14.1	16.4
Impairment against new lending and purchased assets	**12.6**	**0.1**	**0.1**	**0.6**	**13.4**
Exchange differences	**—**	**—**	**—**	**(0.5)**	**(0.5)**
Impairment against loans transferred from/(to) performing	**(0.3)**	**0.5**	**2.5**	**—**	**2.7**
Loans repaid	**(10.5)**	**—**	**(0.2)**	**(0.9)**	**(11.6)**
Change in probability of default or loss given default assumptions	**(1.3)**	**0.1**	**0.4**	**0.5**	**(0.3)**
At 31 December 2023	**1.6**	**1.0**	**3.7**	**13.8**	**20.1**

	Expected credit loss coverage %	Basis for recognition of expected credit loss impairment	Gross lines of credit and SME loans (other) £m	Provision for expected credit loss £m	Net carrying amount £m
As at 31 December 2022					
Performing (due in 30 days or less)	2.7	12 month ECL	39.2	(1.1)	38.1
Underperforming (31–90 days overdue)	36.5	Lifetime ECL	0.7	(0.3)	0.4
Non-performing (90+ days overdue)	43.1	Lifetime ECL	2.3	(0.9)	1.4
POCI (90+ days overdue)	94.2	Lifetime ECL	15.0	(14.1)	0.9
		Total	57.2	(16.4)	40.8
As at 31 December 2023					
Performing (due in 30 days or less)	**2.9**	**12 month ECL**	**55.8**	**(1.6)**	**54.2**
Underperforming (31–90 days overdue)	**50.0**	**Lifetime ECL**	**2.0**	**(1.0)**	**1.0**
Non-performing (90+ days overdue)	**86.0**	**Lifetime ECL**	**4.3**	**(3.7)**	**0.6**
POCI (90+ days overdue)	**93.9**	**Lifetime ECL**	**14.7**	**(13.8)**	**0.9**
		Total	**76.8**	**(20.1)**	**56.7**

Of which is drawn FlexiPay lines of credit	Expected credit loss coverage %	Basis for recognition of expected credit loss impairment	Gross lines of credit £m	Provision for expected credit loss £m	Net carrying amount £m
As at 31 December 2022					
Performing (due in 30 days or less)	5.3	12 month ECL	16.5	(0.8)	15.7
Underperforming (31–90 days overdue)	48.4	Lifetime ECL	0.5	(0.3)	0.2
Non-performing (90+ days overdue)	85.0	Lifetime ECL	0.6	(0.5)	0.1
POCI (90+ days overdue)	—	Lifetime ECL	—	—	—
		Total	17.6	(1.6)	16.0
As at 31 December 2023					
Performing (due in 30 days or less)	**2.7**	**12 month ECL**	**50.3**	**(1.4)**	**48.9**
Underperforming (31–90 days overdue)	**54.5**	**Lifetime ECL**	**1.9**	**(1.0)**	**0.9**
Non-performing (90+ days overdue)	**93.6**	**Lifetime ECL**	**3.2**	**(3.0)**	**0.2**
POCI (90+ days overdue)	**—**	**Lifetime ECL**	**—**	**—**	**—**
		Total	**55.4**	**(5.4)**	**50.0**

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

14. Financial risk management continued

Financial risk factors continued

Credit risk continued

The risk and finance functions of the Group monitor the performance of the FlexiPay Lines of credit and SME loans (other) and calculate the ECL estimate required for financial reporting purposes. These teams report to the Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO"). Discussions of estimates processes and results are held regularly at Balance Sheet Management and Investment Valuation Committees along with regular updates provided to the Audit Committee.

The allowance for expected credit losses is based on the Group's past experience of delinquencies and loss trends, as well as forward-looking information in the form of macroeconomic scenarios governed by an impairment committee, which considers macroeconomic forecasts such as changes in interest rates, GDP and inflation which are incorporated into scenarios and probability weighted.

Estimation is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information including macroeconomic forecasts in each market together with the impact on loan defaults. A sensitivity to these assumptions on the estimated ECL is disclosed within note 2.

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

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

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

Individual risk limits for banks and financial institutions are set by the Group with reference to external rating agencies. The Group's treasury policy has set limits and quantities that the Group must remain within. No credit or counterparty limits were exceeded during the year. The Group's cash and cash equivalents split by S&P counterparty rating were A/A- rated: £71.3 million (2022: £56.2 million), A+ or better rated: £150.1 million (2022: £121.5 million) and below A- rated: £nil (2022: £nil).

Liquidity risk

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

The Group's liquidity position is monitored and reviewed on an ongoing basis by the Directors.

The amounts disclosed in the following tables are the contractual undiscounted cash flows. The liquidity requirements of the bonds in the prior year were met from cash flows generated by the investment in SME loans (securitised) and the liquidity requirements of bank borrowings are met from cash flows generated by investment in SME loans (other) and FlexiPay lines of credit.

The maturity analysis of financial instruments at 31 December 2023 and 31 December 2022 is as follows:

At 31 December 2023	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting[2] £m	Carrying amount £m
Financial liabilities							
Trade and other payables	(34.8)	—	(0.2)	—	(35.0)	—	(35.0)
Bank borrowings	—	(54.7)	(2.2)	—	(56.9)	—	(56.9)
Bonds	—	—	—	—	—	—	—
Loan repurchase liability[1]	(0.1)	—	—	—	(0.1)	—	(0.1)
Lease liabilities	(1.8)	(5.5)	(5.9)	—	(13.2)	0.6	(12.6)
	(36.7)	(60.2)	(8.3)	—	(105.2)	0.6	(104.6)

14. Financial risk management continued

Financial risk factors continued

Liquidity risk continued

At 31 December 2022	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting[2] £m	Carrying amount £m
Financial liabilities							
Trade and other payables	(12.2)	—	—	—	(12.2)	—	(12.2)
Bank borrowings	—	—	(22.6)	—	(22.6)	—	(22.6)
Bonds	(5.1)	(12.5)	(6.4)	—	(24.0)	0.3	(23.7)
Loan repurchase liability[1]	(0.5)	—	—	—	(0.5)	—	(0.5)
Lease liabilities	(1.7)	(5.6)	(13.7)	—	(21.0)	1.2	(19.8)
	(19.5)	(18.1)	(42.7)	—	(80.3)	1.5	(78.8)

1. Financial guarantees provided for in the loan repurchase liability are allocated to the earliest period in which the guarantee could possibly be called.
2. Included within the impact of discounting on bonds is £nil of deferred bond issuance costs (2022: £0.3 million).

Bank borrowings consist of drawn amounts in the US of $2.8 million (2022: $27.3 million) on the PPP Liquidity Facility available from the Federal Reserve Bank at a fixed interest rate of 0.35%. They also comprise the drawn balance on a committed lending facility in the FlexiPay warehouse of £54.7 million (2022: £nil) at a floating rate of interest based on SONIA plus a margin.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risk arises from open positions in interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

a) Other price risk

The fair value of the SME loans which are held at fair value through profit and loss can fluctuate depending on market pricing of relative interest rates and credit risk. This is reflected in the discount rate used to derive a valuation for the loan assets. The discount rates used in the valuation of the assets measured at fair value through profit and loss are not considered to be a material source of estimation uncertainty and a sensitivity analysis has not been disclosed.

b) Interest rate risk

The Group is exposed to interest rate risk in relation to financial liabilities through drawn committed borrowing facilities and on financial assets through investment in SME loans.

Non-trading interest rate risk

The Group's interest risk on financial instruments is limited to interest receivable on loan note investments, cash and cash equivalent balances and interest on bonds and bank borrowings. The maturities of financial instruments subject to interest rate risk are as follows:

	Less than 3 months		Between 3 months and 1 year		Between 1 and 5 years	
At 31 December	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Fixed rate						
SME loans (other)[2]	**1.1**	0.9	**0.6**	0.4	**5.9**	44.4
Investment in trusts and co-investments	**—**	—	**—**	—	**25.2**	28.7
Lines of credit	**50.0**	16.0	**—**	—	**—**	—
SME loans (warehouse)[1]	**0.1**	0.1	**0.5**	0.1	**0.7**	2.2
SME loans (securitised)[1]	**0.5**	0.1	**13.0**	4.0	**2.9**	41.7
Bank borrowings[2]	**—**	—	**—**	—	**(2.2)**	(22.6)
Bonds[1]	**—**	—	**—**	—	**—**	(23.7)
Floating rate						
Cash and cash equivalents	**221.4**	177.7	**—**	—	**—**	—
Bank borrowings[2]	**—**	—	**(54.7)**	—	**—**	—
	273.1	194.8	**(40.6)**	4.5	**32.5**	70.7

1. The SME loans (warehouse) and SME loans (securitised) are classified as current on the balance sheet, reflecting that the position is held to sell. The above table represents the contractual maturities.
2. The fixed rate bank borrowings and SME loans (other) include the Group's drawing of the PPP Liquidity Facility in the US in order to fund PPP loan originations. These are classified as non-current on the balance sheet, and the above table represents the contractual maturities, although the PPP loans could be forgiven by the SBA and the associated liability could be repaid from the proceeds within 12 months of the balance sheet date. The floating rate bank borrowings represent the facility in the FlexiPay warehouse used to originate lines of credit.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

14. Financial risk management continued

Financial risk factors continued

Market risk continued

b) Interest rate risk continued

Non-trading interest rate risk continued

There are no financial assets with a maturity of over five years.

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

Interest on SME loans and on the PPPLF borrowings and bond liabilities (in the US) is fixed until the maturity of the investment and is not impacted by market rate changes. All remaining US bond liabilities were repaid during the year to 31 December 2023. The level of future interest rate receivable would be similar to that received in the year and the impact of movements in interest rates on the value of the assets is considered immaterial to the Group's overall performance for the year.

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

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

Interest on bonds (in the UK) was subject to movements in the Sterling Overnight Index Average Rate ("SONIA"). However, the Group had mitigated the risk of increases in interest rates through the use of interest rate caps and the bonds were fully repaid during the previous year ended 31 December 2022.

Interest on bank borrowings related to the FlexiPay lines of credit are subject to movements in SONIA. The Group has partially protected itself through the use of an interest rate cap with a strike price of 6.5% and a notional amount that increases in line with the projected drawdowns on the senior borrowing facility. The fair value of the interest rate cap is not material to the Group.

If SONIA were to increase by 100 bps, based on the drawn balance at 31 December 2023, the annualised interest expense recognised in borrowing costs would increase by £0.5 million (including any impact of the interest rate cap). Additionally, while the fees charged on FlexiPay lines of credit are fixed for the duration of individual drawdowns, due to the short-term and revolving nature of the product, the Group can reprice the fees charged on drawdowns at short notice in order to manage interest rate risk of the floating rate borrowings.

Some of the Group's investment in trusts are through warehouse vehicles where the Group is a minority equity investor. The senior borrowing facilities utilised in these vehicles receive interest on borrowings in priority to payments to the equity investors at SONIA plus a margin. As a result of the increase in SONIA and anticipated future increases, the increased borrowing costs have reduced the expected cash returns to the equity investors of the investment held at fair value through profit and loss. The impact is recognised in fair value gains and losses in the statement of comprehensive income. Some, but not all of the vehicles, had interest rate caps or interest rate swaps within their structures which can mitigate the impact of future rate rises. The remaining leveraged warehouse vehicles, which previously did not hold hedging instruments, entered into cap or swap agreements during the year ended 31 December 2023.

The fair value of investments in trusts and co-investments are no longer considered to be sensitive to further increases in SONIA or the projected SONIA rates as a result of hedging in place.

c) Sensitivity analysis

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the report date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed above, the Group does not have significant exposure to price or cash flow risk and therefore no sensitivity analysis for those risks has been disclosed.

d) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the UK pound and the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which income is generated and expenses are incurred.

14. Financial risk management continued

Financial risk factors continued

Market risk continued

d) Foreign exchange risk continued

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

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

	31 December 2023				31 December 2022			
	USD £m	**GBP £m**	**EUR £m**	**Total £m**	USD £m	GBP £m	EUR £m	Total £m
Cash and cash equivalents	**0.2**	**—**	**—**	**0.2**	0.2	—	—	0.2
Intra-group assets	**—**	**—**	**0.2**	**0.2**	—	—	1.0	1.0
Intra-group liabilities	**(45.5)**	**—**	**(0.3)**	**(45.8)**	(16.5)	—	(0.8)	(17.3)

The Group assessed the sensitivity to a 10% depreciation and 10% appreciation in pound sterling against the relevant foreign currencies. While 5% is the sensitivity rate used when reporting foreign currency risk internally to senior management personnel, in light of recent fluctuations in foreign exchange rates, 10% represents management's current assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis to the income statement includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis illustrates the impact on the foreign currency translation reserve within equity of the retranslation of quasi-equity loans to foreign operations within the Group and net investment in foreign operations of the Group.

The Group's sensitivity to fluctuations in foreign currencies is related to the US dollar and euro amounts held in the Parent Company.

	Appreciation in pound sterling				Depreciation in pound sterling			
At 31 December	**Income statement 2023 £m**	**Equity 2023 £m**	Income statement 2022 £m	Equity 2022 £m	**Income statement 2023 £m**	**Equity 2023 £m**	Income statement 2022 £m	Equity 2022 £m
US dollars	**—**	**(3.0)**	—	(3.6)	**—**	**3.7**	—	4.4
Euros	**—**	**0.9**	—	0.6	**—**	**(1.1)**	—	(0.7)
	—	**(2.1)**	—	(3.0)	**—**	**2.6**	—	3.7

Impairment of net investment in subleases:

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

Capital management

The Group considers its capital to comprise its ordinary share capital, share premium, foreign exchange reserve, share options reserve and retained earnings. Quantitative detail is shown in the consolidated statement of changes in equity.

The Directors' objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Directors monitor a number of KPIs at both the Group and individual subsidiary level on a monthly basis. As part of the budgetary process, targets are set with respect to operating expenses in order to effectively manage the activities of the Group. Performance is reviewed on a regular basis and appropriate actions are taken as required. These internal measures indicate the performance of the business against budget/forecast and confirm whether the Group has adequate resources to meet its working capital requirements.

The Group is subject to externally imposed capital requirements by the Financial Conduct Authority but these are lower than internally set requirements. During the period, the Group complied with all externally imposed requirements.

Sources of estimation uncertainty and critical judgements that may result in a material adjustment in future periods are outlined in note 2.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

15. Share capital

	31 December 2023 Number	31 December 2023 £	31 December 2022 Number	31 December 2022 £
Called up, allotted and fully paid				
Ordinary shares of £0.001	**361,303,143**	**361,303**	361,303,143	361,303

During 2023, the Company issued nil ordinary shares of £0.001 (2022: 4,683,425) shares ranking pari passu with ordinary shares in issue in connection with employee share schemes, giving rise to a total share premium of £nil (2022: £0.1 million).

Included in the total number of ordinary shares outstanding are 16,614,054 (2022: 16,726,515) shares held by the Group's Employee Benefit Trust, which includes 16,473,230 shares (2022: 16,471,239) that were purchased (3,290,000 purchased (2022: 17,660,340) and 3,288,009 (2022: 1,189,101) utilised to satisfy employee share option plans) and 5,428,551 (2022: 5,539,201) shares held by the Group's Share Incentive Plan Trust.

16. Share premium account

	2023 £m	2022 £m
At 1 January	**293.1**	293.0
Exercise of options – proceeds received	—	0.1
At 31 December	**293.1**	293.1

17. Foreign exchange reserve

	£m
At 1 January 2022	11.1
Exchange difference on translating the net assets of foreign operations	5.8
At 31 December 2022	16.9
Exchange difference on translating the net assets of foreign operations	(2.7)
At 31 December 2023	**14.2**

Exchange differences relating to the translation of the net assets of the Group's subsidiaries from their functional currency into the Company's functional currency are recognised directly in the foreign exchange reserves within equity.

18. Accumulated losses

	£m
At 1 January 2022	(35.6)
Transfer of share option costs	2.6
Purchase of own shares	(8.7)
Loss for the year	(6.9)
At 31 December 2022	(48.6)
Transfer of share option costs	3.8
Purchase of own shares	(1.8)
Loss for the year	(38.3)
At 31 December 2023	**(84.9)**

The transfer of share option costs is in relation to the exercise of share options during the year and their associated costs in the share options reserve which are transferred to (accumulated losses)/retained earnings.

During the year ended 31 December 2023, £1.8 million (2022: £8.7 million) of ordinary shares were purchased by the EBT for the purposes of satisfying employee share option plans. The number of shares purchased was 3.3 million and the average purchase price was £0.53 (2022: 17.6 million and £0.50). All shares have a nominal value of £0.001.

19. Share-based payment

The Company operates share schemes for all employees of the Group. The terms of the main current schemes from which the Group's employees benefit are set out below.

Post-IPO employee share plans

Since the Company's admission on the London Stock Exchange to the year ended 31 December 2019, the Company operated a single discretionary share-based long-term incentive plan ("LTIP"). In November 2020, the Company introduced a Share Incentive Plan ("SIP") approved by HMRC, which includes free shares, partnership shares and matching shares. This plan is only relevant for UK-based employees; the LTIP will continue to make awards for non-UK-based employees and employees in senior management positions.

The main features of the LTIP and SIP are set out below.

Post-IPO – LTIP

Form of LTIP Awards

The Board grants awards in the form of restricted stock units at no cost or options to acquire shares at no cost (a nil-cost option).

Performance conditions

LTIP Awards are not currently subject to performance conditions with the exception of LTIP Awards granted to Executive Directors which are subject to performance conditions. Refer to the Remuneration Report for further details.

Any performance condition may be amended or substituted if one or more events occur which cause the Board to reasonably consider that an amended or substituted performance condition would be more appropriate and would not be materially less difficult to satisfy than originally intended.

Vesting and release of LTIP Awards

LTIP Awards granted to employees, excluding Executive Directors, currently vest subject to continued service only ("Time-Based Vesting") in accordance with a vesting schedule set at grant.

LTIP Awards granted to Executive Directors vest at the end of three years subject to achievement of performance conditions. Further details are shown in the Remuneration Report.

The Board may determine at grant that an LTIP Award is subject to an additional holding period following vesting (a "Holding Period"). LTIP Options will be exercisable from the date of vesting or, if applicable, the end of the Holding Period until the tenth anniversary of the grant date, or such earlier date as the Board determines.

Cessation of employment

LTIP Options may normally be exercised to the extent vested for a period of six months after ceasing employment or 12 months after death (or such other period as the Board may determine).

Post-IPO – SIP

Form of SIP Awards

The Board grants awards in the form of free shares, partnership shares and matching shares.

Performance conditions

There are no performance conditions attached to free shares, partnership shares and matching shares.

Free shares

From 2023 onwards, only UK-based employees in senior management positions are eligible to receive Free shares. Free shares are awarded annually with a forfeiture period of two years and a holding period of three years.

Until 2022 under SIP, all UK employees were eligible to receive up to a maximum of £3,600, or 10% of annual salary if less, of free shares per tax year. Free shares were awarded annually with a forfeiture period of two years and a holding period of three years.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

19. Share-based payment continued

Pre-IPO employee share plans continued

Post-IPO – SIP continued

Matching shares

UK employees are invited to buy partnership shares from pre-tax salary with a maximum investment in each tax year of £1,800, or 10% of annual salary if less. Partnership shares are purchased every month. Employees can withdraw partnership shares from the SIP at any time although there are tax advantages if the shares are retained in the SIP for at least three years.

Up to 2022 participants were awarded one matching share for every one partnership share they purchased, and from 2023 this was increased to two matching shares for every partnership share purchased. There are tax advantages if the matching shares are retained in the SIP for at least three years.

Whilst employed by the Company, a participant will forfeit a corresponding number of matching shares if they choose to transfer partnership shares out of the SIP within three years of the date of purchase.

Under normal circumstances, if a participant leaves the Company before the second anniversary of the date of award, they will forfeit their matching shares. If they leave between two and three years of the date of award, they retain their matching shares but those shares must be removed from the SIP and any tax advantages are lost. If a participant leaves under special circumstances, they will retain all of their matching shares, regardless of how long they have been held in the SIP.

Pre-IPO employee share plans

EMI Options

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

Unapproved Options

The Company has an Unapproved Options Scheme for all employees of the Group. In accordance with standard vesting terms, the full award will vest four years after the vesting start date, with 25% vesting on the first anniversary of the vesting date and 6.25% every three months thereafter. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

US Options Scheme 2

Options granted under the US Options Scheme 2 are Unapproved Options granted to US employees as either non-qualifying options or incentive stock options. The US Options Scheme 2 has the same vesting period as Unapproved Options. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Unvested options are forfeited if the employee leaves the Group before the options vest.

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 of the Group is a charge for share-based payments and associated social security costs of £5.6 million (2022: £4.7 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

19. Share-based payment continued

Movements in share plans

Details of movements in the share schemes during the year are as follows:

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options Scheme		Total	
	Number and WAEP[1]		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2022	299,000	0.027	5,142,084	0.317	2,857,773	—	19,340,043	—	2,819,280	0.431	30,458,180	0.106
Granted during the year	—	—	—	—	3,131,344	—	11,817,920	—	—	—	14,949,264	—
Exercised during the year	(152,700)	0.027	(129,399)	0.417	—	—	(3,121,272)	—	(2,383)	0.410	(3,405,754)	0.017
Forfeited during the year	(5,000)	0.027	(2,789)	1.682	(1,155,891)	—	(8,175,973)	—	(625)	0.440	(9,340,278)	0.001
Outstanding at 31 December 2022	141,300	0.026	5,009,896	0.314	4,833,226	—	19,860,718	—	2,816,272	0.431	32,661,412	0.097

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options Scheme		Total	
	Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2023	141,300	0.026	5,009,896	0.314	4,833,226	—	19,860,718	—	2,816,272	0.431	32,661,412	0.097
Granted during the year	—	—	—	—	653,742	—	21,443,472	—	—	—	22,097,214	—
Exercised during the year	(96,000)	0.027	(386,367)	0.143	(383,116)	—	(2,971,351)	—	(3,034)	0.516	(3,839,868)	0.014
Forfeited during the year	—	—	(938)	0.440	(711,218)	—	(4,792,300)	—	(40,888)	0.522	(5,545,344)	0.004
Outstanding at 31 December 2023	**45,300**	**0.024**	**4,622,591**	**0.328**	**4,392,634**	—	**33,540,539**	—	**2,772,350**	**0.429**	**45,373,414**	**0.068**

1. Weighted average exercise price.

The following table summarises information about the share awards outstanding at 31 December 2023:

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options		Total	
	Number and WARCL[1]		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
Range of exercise prices	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0–£0.008	—	—	2,190,017	4.4	4,392,634	—	33,540,539	8.4	—	—	40,123,190	7.3
£0.009–£0.176	45,300	0.4	18,438	1.1	—	—	—	—	24,302	0.4	88,040	0.5
£0.177–£0.471	—	—	2,045,498	3.2	—	—	—	—	2,150,665	1.8	4,196,163	2.4
£0.472–£1.75	—	—	368,638	4.5	—	—	—	—	597,383	4.5	966,021	4.5
	45,300	**0.4**	**4,622,591**	**3.8**	**4,392,634**	—	**33,540,539**	**8.4**	**2,772,350**	**2.3**	**45,373,414**	**6.7**

The following table summarises information about the share awards outstanding at 31 December 2022:

	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options		Total	
	Number and WARCL[1]		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
Range of exercise prices	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0–£0.008	—	—	2,260,017	5.4	4,833,226	—	19,860,718	7.9	—	—	26,953,961	6.2
£0.009–£0.176	141,300	0.8	214,142	0.5	—	—	—	—	24,302	1.4	379,744	0.6
£0.177–£0.471	—	—	2,167,099	4.3	—	—	—	—	2,193,087	2.8	4,360,186	3.5
£0.472–£1.75	—	—	368,638	5.5	—	—	—	—	598,883	5.4	967,521	5.4
	141,300	0.8	5,009,896	4.7	4,833,226	—	19,860,718	7.9	2,816,272	3.3	32,661,412	5.8

1. Weighted average remaining contractual life.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

19. Share-based payment continued

Unapproved Options Scheme

There have been no Unapproved Options granted since IPO in 2018. The weighted average fair values of options granted under the Unapproved Options Scheme and the US Options Scheme ranged between £0.73 and £1.80 per option respectively in the previous year. These values were determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

Unapproved Options Scheme	31 December 2019
Share price (various times during the year)	£1.89
Exercise price	£nil–£0.44
Expected life	4 years
Expected volatility	48%
Risk-free interest rate (between)	0.93%–1.02%
Dividend yield	Nil
Forward exchange rate – US Options (between)	0.769

LTIP Awards

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

Free shares and matching shares

The Company has used its share price at grant date as the fair value of free shares and matching shares granted during the year to employees.

20. Notes to the consolidated statement of cash flows

Cash outflow from operating activities

	31 December 2023 £m	31 December 2022 (re-presented)[1] £m
Loss before taxation	**(33.2)**	(12.9)
Adjustments for:		
Depreciation of property, plant and equipment	**4.3**	5.1
Amortisation of intangible assets	**12.4**	10.1
Impairment of ROU assets and investment in sublease	**6.2**	1.8
Interest payable	**0.6**	0.9
Non-cash employee benefits expense – share-based payments and associated social security costs	**5.6**	4.7
Fair value losses/(gains)	**(8.7)**	(4.8)
Movement in restructuring provision	**—**	(0.2)
Movement in loan repurchase liability	**(0.4)**	(1.8)
Movement in other provisions	**0.9**	(0.1)
Share of gains of associates	**(0.1)**	(0.4)
Other non-cash movements	**5.1**	1.4
Changes in working capital		
Movement in trade and other receivables	**(13.5)**	8.8
Movement in trade and other payables	**34.7**	(3.7)
Tax paid	**(0.6)**	(1.0)
Originations of lines of credit	**(230.4)**	(59.6)
Cash receipts from lines of credit	**191.5**	43.6
Net cash outflow from operating activities	**(25.6)**	(8.1)

1. The comparative year to 31 December 2022 has been re-presented to present "Interest received" which was previously a component of investing activities as a component of operating income to mirror the re-presentation of interest on cash and cash equivalents within "Interest income" which was previously presented within "Finance income" on the consolidated statement of comprehensive income. As a result it is not disclosed separately above.

20. Notes to the consolidated statement of cash flows continued

Cash and cash equivalents

	31 December 2023 £m	31 December 2022 £m
Cash and cash equivalents	**221.4**	177.7

The cash and cash equivalents balance is made up of cash and money market funds. The carrying amount of these assets is approximately equal to their fair value. Included within cash and cash equivalents above is a total of £51.8 million (2022: £12.1 million) in cash which is restricted in use. Of this, £1.1 million (2022: £1.1 million) is restricted in use in the event of rental payment defaults and cash held in the securitisation SPVs of £nil (2022: £2.9 million) which has been collected for onpayment to bond holders and is therefore restricted in its use. £31.1 million (2022: £8.1 million) of cash is held which is restricted in use to repaying investors in CBILS and RLS loans and paying CBILS and RLS-related costs to the UK government. A further £19.6 million (2022: £nil) of cash is held which is restricted for use in the FlexiPay warehouse.

At 31 December 2023, money market funds totalled £150.1 million (2022: £121.6 million).

Analysis of changes in liabilities from financing activities

	1 January 2022 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	31 December 2022 £m
Bank borrowings	(73.2)	57.9	(7.3)	—	(22.6)
Bonds	(140.3)	129.1	(8.1)	(4.4)	(23.7)
Lease liabilities	(23.9)	7.3	(1.6)	(1.6)	(19.8)
Liabilities from financing activities	(237.4)	194.3	(17.0)	(6.0)	(66.1)

	1 January 2023 £m	**Cash flow £m**	**Exchange movements £m**	**Other non-cash movements £m**	**31 December 2023 £m**
Bank borrowings	**(22.6)**	**(34.9)**	**0.6**	—	**(56.9)**
Bonds	**(23.7)**	**23.4**	**0.6**	**(0.3)**	—
Lease liabilities	**(19.8)**	**7.2**	**0.6**	**(0.6)**	**(12.6)**
Liabilities from financing activities	**(66.1)**	**(4.3)**	**1.8**	**(0.9)**	**(69.5)**

21. Operating lease arrangements

As disclosed in notes 1 and 9, leases of low-value items or short-term leases continue to be treated as operating leases.

	31 December 2023 £m	31 December 2022 £m
Lease payments under operating leases recognised as an expense in the year	**0.4**	0.3

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases of £0.3 million (2022: £0.7 million).

Operating lease payments represent payments for lease assets that are individually considered low value.

22. Dividends per share

No ordinary dividends were declared or paid in the current or previous financial years.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

23. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group's key management personnel comprises the Global Leadership Team ("GLT"), which is made up of the Executive Directors and other senior management as defined in note 3 as the chief operating decision maker ("CODM") and the Non-Executive Directors of the Group.

	31 December 2023 £m	31 December 2022 £m
Salaries and short-term benefits	**4.8**	5.1
Equity-based compensation	**2.0**	1.3
Post-employment benefits	**0.1**	0.1
	6.9	6.5

Further details on Directors' remuneration are disclosed in the Remuneration Report in the Corporate Governance section of the Annual Report and Accounts on pages 94 to 116.

Transactions with other related parties

During the year, the Group received capital redemptions of £1.1 million (2022: £5.1 million) and received dividends of £0.1 million (2022: £0.3 million) from entities accounted for as associates.

During the year, the Group received service fees from loans held by Knightrider Lending Designated Activity Company of £nil (2022: £0.1 million) and from Throgmorton Lending Designated Activity Company of £0.3 million (2022: £0.4 million). These entities are subsidiaries of the Group's associates, as detailed in note 27.

24. Ultimate controlling party

In the opinion of the Directors, the Group does not have a single ultimate controlling party.

25. Contingent liabilities and commitments

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

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

The Group has commitments related to undrawn amounts on issued FlexiPay lines of credit. At 31 December 2023, there were undrawn commitments of £157.3 million (2022: £41.6 million). An expected credit loss impairment allowance is held within other provisions by the Group of £1.4 million (2022: £0.3 million) in relation to the estimated credit losses the Group may be exposed to on these undrawn lines of credit.

26. Subsequent events

At the year end date, the Directors were considering the future direction of the US business. Whilst the US continues to offer attractive growth, it will require significant cash and capital under the SBA programme. Against this, we have determined that a simpler, more profitable UK business will deliver greater shareholder value with improved profitability and cash generation.

We have now reached a point, in March 2024, where we have announced our decision to focus on the UK opportunity and that we are in discussion with third parties regarding the US business. The financial impact of this is yet to be quantified.

In March 2024, the Group announced and commenced purchases under a discretionary programme to purchase ordinary shares of £0.001 each in its share capital, up to maximum consideration of £25 million, because the share price materially undervalues the business. Funding Circle intends to conduct the programme in accordance with and under the terms of and capacity available under the general authority granted by its shareholders at its Annual General Meeting held on 11 May 2023, subject to available distributable reserves.

27. Interests in other entities

Investments in subsidiaries

The Group had the following subsidiaries, all of which have been included in these consolidated financial statements. The proportion of the voting rights in subsidiary undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

Subsidiary undertakings	Place of incorporation	Proportion of ownership interest	Directly/ indirectly held	Registered office address
Funding Circle Ltd	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Asset Finance Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle BB Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Eclipse Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Focal Point Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Global Partners Limited	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Midco Limited	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Property Finance Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Trustee Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Made To Do More Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Horizon Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Polaris Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle USA, Inc.	USA	100%	Directly	707 17th Street, Suite 2200 Denver, CO 80202
Funding Circle Notes Program, LLC	USA	100%	Indirectly	707 17th Street, Suite 2200 Denver, CO 80202
FC Marketplace, LLC	USA	100%	Indirectly	707 17th Street, Suite 2200 Denver, CO 80202
Funding Circle Investor Funds, LLC	USA	100%	Indirectly	707 17th Street, Suite 2200 Denver, CO 80202
FC Depositor US LLC	USA	100%	Indirectly	707 17th Street, Suite 2200 Denver, CO 80202
FC Capital US III LLC	USA	100%	Indirectly	707 17th Street, Suite 2200 Denver, CO 80202
FC SBA Lending LLC	USA	100%	Indirectly	707 17th Street, Suite 2200 Denver, CO 80202
Funding Circle CE GmbH	Germany	100%	Directly	Rheinstraße 11, 14513 Teltow
Funding Circle Deutschland GmbH	Germany	100%	Indirectly	Rheinstraße 11, 14513 Teltow
Funding Circle Connect GmbH	Germany	100%	Indirectly	Rheinstraße 11, 14513 Teltow
FC Forderungsmanagement GmbH	Germany	100%	Indirectly	Rheinstraße 11, 14513 Teltow
Funding Circle Espana S.L.	Spain	100%	Indirectly	Calle Claudio Coello número 91, 3a planta, 28006 Madrid
Funding Circle Nederland B.V.	Netherlands	100%	Indirectly	Atrium, Strawinskylaan 3075, 4th Floor, 1077 ZX Amsterdam

Investments in associates

Set out below are the associates of the Group as at 31 December 2023 which, in the opinion of the Directors, are material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Associate entity name	Place of incorporation	Proportion of ownership interest	Directly/ indirectly held	Registered office address
Funding Circle UK SME Direct Lending Fund I[1]	Ireland	8%	Indirectly	70, Sir John Rogerson's Quay, Dublin 2, Ireland

1. Private sub-fund held via the Funding Circle ICAV, an Irish collective asset-management vehicle constituted as an umbrella fund with registered office address of 70, Sir John Rogerson's Quay, Dublin 2, Ireland.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

27. Interests in other entities continued

Investments in associates continued

The associates outlined above directly hold investments in subsidiary entities as detailed below, which are considered to be related parties of the Group.

Other related party name	Place of incorporation	Relationship	% ownership by associate	Immediate parent entity	Registered office address
Throgmorton Lending Designated Activity Company	Ireland	Subsidiary of associate	100%	Funding Circle UK SME Direct Lending Fund I	70, Sir John Rogerson's Quay, Dublin 2, Ireland

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not Funding Circle Holdings plc's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including modifications for differences in accounting policy. While the Group holds less than 20% ownership in Funding Circle UK SME Direct Lending Fund I, the Group considers that it has significant influence over the entity through representation on its Board and so continues to account for it as an associate instead of a trade investment.

The associates are sub-funds which invest in SME loans, and the Group is exposed to default and prepayment risk with respect to the performance of the underlying loans in the associates, to the extent that the share of profit from associates may diminish. The table below illustrates the Group's maximum exposure to the investment in associate which represents the value on the Group balance sheet. The value of the investment is derived from net asset value statements from the sub-funds; however, being private, these are not from observable market data, and therefore the fair value is considered to be aligned to the carrying value.

Summarised balance sheet (Group's share)	**Funding Circle UK SME Direct Lending Fund I 31 December 2023 £m**	Funding Circle UK SME Direct Lending Fund I 31 December 2022 £m
Non-current assets	**1.2**	2.4
Current assets	**0.3**	0.3
Current liabilities	—	—
Non-current liabilities	—	—
Net assets	**1.5**	2.7

Reconciliation of associates' total shareholders' equity to carrying amount in Funding Circle Holdings plc's consolidated financial statements

	Funding Circle UK SME Direct Lending Fund I 2023 £m	Funding Circle UK SME Direct Lending Fund I 2022 £m
Opening net assets as at 1 January	**32.5**	51.3
Profit for the year	**1.1**	3.2
Exchange differences	—	—
Other comprehensive income	—	—
Capital redemptions in the year	**(13.8)**	(18.1)
Dividends paid in the year	**(1.5)**	(3.9)
Closing net assets as at 31 December	**18.3**	32.5
Group's share in %	**8.3%**	8.3%
Group's share of net assets as at 31 December	**1.5**	2.7
Accounting policy alignment	—	—
Group's carrying amount	**1.5**	2.7

27. Interests in other entities continued

Reconciliation of associates' total shareholders' equity to carrying amount in Funding Circle Holdings plc's consolidated financial statements continued

Summarised statement of comprehensive income (Group's share)	**Funding Circle UK SME Direct Lending Fund I 2023 £m**	Funding Circle UK SME Direct Lending Fund I 2022 £m
Gross income	**0.2**	0.3
Profit for the year	**0.1**	0.4
Other comprehensive income	**—**	—
Total comprehensive income	**0.1**	0.4
Dividends received from associates	**0.1**	0.3
Capital redemptions received from associates	**1.1**	1.5

Interest in other entities

Stichting Derdengelden Funding Circle is not a direct or indirect subsidiary of Funding Circle Holdings plc but is an independent special purpose foundation which is required in the Netherlands to safeguard borrower and investor funds and is consolidated as it is controlled by the Group. The registered office address is Atrium, Strawinskylaan 3075, 4th Floor, 1077 ZX Amsterdam.

The Funding Circle Holdings Employee Benefit Trust was established on 14 September 2018. The purpose of the trust is to facilitate the acquisition of shares in the Company by, or for the benefit of, existing and future employees of the Company and Group subsidiaries and is consolidated as it is controlled by the Group.

Consolidated structured entities: Small Business Origination Loan Trust 2019-3 DAC, Great Trinity Lending 1 DAC, Small Business Lending Trust 2019-A, Small Business Lending Grantor Trust 2019-A, Small Business Lending Trust 2020-A and Small Business Lending Grantor Trust 2020-A were consolidated structured warehouse and securitisation entities which either hold SME loan assets in a warehouse or hold the portfolio of SME loans and issued bonds after securitisation has occurred.

Kanaloa 2 Limited ("K2") is a consolidated UK leveraged SPV warehouse that has been set up with the intention of funding FlexiPay lines of credit through the use of a senior lending facility.

The entities are, or were, bankruptcy remote special purpose vehicles and as such there is no requirement for the Group to provide financial support to the entities. The entities' activities are not governed by voting rights and the Group has assessed that it has power over the entities based on the purpose and design of the entity and ability to direct the relevant activities of the entity, the nature of the relationship with the entity and the size of its exposure to the variability of the returns from each entity.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2023

27. Interests in other entities continued

Interest in other entities continued

As explained in note 14, the Group experiences credit risk in relation to the SME loan assets and FlexiPay lines of credit net of bank borrowings, and interest rate risk in relation to the warehouse loan facilities which is partially mitigated through the use of derivative financial instruments.

The principal activities of the Group's most significant subsidiary undertakings are set out below. These are considered significant in the context of the Group's business, results and financial position.

Subsidiary undertakings	Principal activity
Funding Circle Ltd	Acts as facilitator and performs intermediary services in respect of all loans made through the Funding Circle platform in the UK and FlexiPay lines of credit.
Funding Circle USA, Inc.	The US operating subsidiary of Funding Circle. Acts as the administrator of the Funding Circle platform in the US.
FC Marketplace, LLC	Acts as originator and servicer of all loans made through the Funding Circle platform in the US. FC Marketplace, LLC sells each loan it originates, on a servicing retained basis, to third party institutional investors or to affiliates (e.g. Funding Circle Notes Program, LLC) on an arm's length basis.
Funding Circle execs Program, LLC	A special purpose bankruptcy remote entity which issues loan payment dependent debt securities to accredited investors. It uses the proceeds to purchase a specific corresponding loan made through the Funding Circle platform from FC Marketplace, LLC. The entity retains the contractual rights to receive the cash flows from the loan assets it has purchased, but has assumed a contractual obligation to pay those cash flows to the holders of the debt securities. The eligibility criteria have been met to derecognise the loan assets and associated issued debt securities as a pass-through arrangement under IFRS 9.
Funding Circle Focal Point Lending Limited	Subsidiary via which CBILS loans are originated and which holds legal title to loans which are held via trust structures for the beneficial ownership of institutional investors.
Funding Circle Eclipse Lending Limited	Subsidiary via which RLS loans are originated and which holds legal title to loans which are held via trust structures for the beneficial ownership of institutional investors.
Funding Circle Deutschland GmbH	Operated the Funding Circle platform in Germany and services loans.
Funding Circle Nederland B.V.	Operated the Funding Circle platform in the Netherlands and services loans.

Company balance sheet

as at 31 December 2023

	Note	31 December 2023 £m	31 December 2022 £m
Non-current assets			
Investments in subsidiary undertakings	5	**310.6**	333.3
		310.6	333.3
Current assets			
Loans due from subsidiary undertakings	7	**0.1**	0.1
Trade and other receivables	6	**0.4**	0.5
Cash and cash equivalents	11	**48.2**	50.1
		48.7	50.7
Total assets		**359.3**	384.0
Current liabilities			
Trade and other payables	8	**1.8**	1.6
Total liabilities		**1.8**	1.6
Equity			
Share capital	9	**0.4**	0.4
Share premium account	9	**293.1**	293.1
Share options reserve		**24.0**	22.2
Retained earnings	10	**40.0**	66.7
Total equity		**357.5**	382.4
Total equity and liabilities		**359.3**	384.0

The Company's loss for the year was £28.7 million (2022: profit of £41.4 million).

The financial statements on pages 179 to 190 were approved by the Board and authorised for issue on 14 March 2024. They were signed on behalf of the Board by:

Oliver White
Director
Company registration number 07123934

The notes on pages 182 to 190 form part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2023

	Note	Share capital £m	Share premium account £m	Share options reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2022		0.4	293.0	19.1	31.4	343.9
Profit and total comprehensive income for the year	10	—	—	—	41.4	41.4
Transactions with owners						
Transfer of share option costs		—	—	(2.6)	2.6	—
Issue of share capital	10	—	0.1	—	—	0.1
Purchase of own shares		—	—	—	(8.7)	(8.7)
Employee share schemes – value of employee services		—	—	5.7	—	5.7
Balance at 31 December 2022		0.4	293.1	22.2	66.7	382.4
Loss and total comprehensive income for the year	10	—	—	—	(28.7)	(28.7)
Transactions with owners						
Transfer of share option costs		—	—	(3.8)	3.8	—
Issue of share capital	10	—	—	—	—	—
Purchase of own shares		—	—	—	(1.8)	(1.8)
Employee share schemes – value of employee services		—	—	5.6	—	5.6
Balance at 31 December 2023		**0.4**	**293.1**	**24.0**	**40.0**	**357.5**

The notes on pages 182 to 190 form part of these financial statements.

Company statement of cash flows

for the year ended 31 December 2023

	Note	31 December 2023 £m	31 December 2022 (re-presented)[1] £m
Net cash outflow from operating activities	11	**(1.1)**	(3.6)
Investing activities			
Loans advanced to subsidiary undertakings	7	**(7.8)**	—
Loan repayment from subsidiary undertakings	7	**7.8**	—
Capital contribution to subsidiary undertakings	5	**—**	(10.0)
Capital redemptions from subsidiary undertakings	5	**1.0**	8.9
Net cash inflow/(outflow) from investing activities		**1.0**	(1.1)
Financing activities			
Proceeds on the issue of shares from the exercise of share options		**—**	0.1
Purchase of own shares		**(1.8)**	(8.7)
Net cash outflow from financing activities		**(1.8)**	(8.6)
Net decrease in cash and cash equivalents		**(1.9)**	(13.3)
Cash and cash equivalents at the beginning of the year		**50.1**	63.4
Cash and cash equivalents at the end of the year	11	**48.2**	50.1

1. The comparative year to 31 December 2022 has been re-presented to present 'interest received' which was previously a component of investing activities as a component of operating income.

The notes on pages 182 to 190 form part of these financial statements.

STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

Notes forming part of the Company financial statements

for the year ended 31 December 2023

1. Material accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Company is a public company limited by shares and registered, incorporated and domiciled in the United Kingdom. The address of its registered office is given on page 196.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value through profit and loss ("FVTPL"). The material accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as noted below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The principal activities of the Company and the nature of the Company's operations are as a holding company for a global SME lending platform.

As permitted by the exemption in section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The Company made a comprehensive loss for the year of £28.7 million (2022: comprehensive profit of £41.4 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).

Re-presentation of interest income on cash and cash equivalents

The business uses its cash resources where it makes the platform stronger. As a result, the Group historically invested in warehouse and securitisation vehicles (which are now largely unwound, with the exception of the FlexiPay warehouse), co-invested alongside investors and more recently in the FlexiPay product. Where cash is not invested in these areas, it is held at banks and in money market funds earning interest. Given its use is integral to the business, and the Group and Company are now earning interest through various mechanisms, we now show the interest we earn on bank deposits, money market funds and on client money, previously shown in "Finance income" in "Interest income" within "Operating income". The Company statement of cash flows and note 11 have been re-presented to reflect this treatment with interest earned now forming part of cash flows from operating activities which were previously disclosed as investing activities. The comparative period re-presented with £0.6 million included within cash flows from operations previously within cash flows from investing activities.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment (see note 5 for further details).

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the Company to make estimates and judgements that affect the application of policies and reported amounts. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. There were no critical accounting judgements in the year ended 31 December 2023.

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings (note 5)

The carrying value of investment in subsidiary undertakings is reviewed for impairment or impairment reversal on an annual basis. The recoverable amount is determined based on the higher of value in use and fair value less cost to sell, with value in use being applied for this assessment where an indicator of impairment or impairment reversal is identified. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of each subsidiary and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates.

It was identified that there was an indicator of impairment of the US business,as a consequence of i) the market capitalisation of the Group is lower than the carrying value of the parent company's investment in its subsidiaries; and ii) evidence that the Group Board were considering the future direction of the US business at the year end which gave rise to uncertainty over the near-term cash requirements and cash flows.

The recoverable amount of £55.1 million as determined by a value in use calculation was lower than the carrying value of £82.2 million resulting in an impairment charge of £27.1 million in relation to Funding Circle USA, Inc. in the year ended 31 December 2023.

1. Material accounting policies continued

Key sources of estimation uncertainty continued

Key assumptions used in the value in use calculation for the US business

The value-in-use calculation considered two scenarios for the US business, reflecting the uncertainty that existed at the balance sheet date.

The Group prepares a three-year management plan for its operations, which is used in the value-in-use calculation. An overlay was applied to the management plan to reflect the potential speed and scaling of the business operating under an SBA7(a) licence. The second scenario considered an exit of the US business. The cash flow projections are based on the following key assumptions:

- tax discount rates ranged between 16.9% and 18.7% under the different scenarios (2022: 16.8%);
- the origination growth rates used which vary between different scenarios, which were benchmarked to historically observed growth rates;
- the associated costs under both scenarios;
- projected terminal growth rate of 2%; and
- the impact of the transfer pricing arrangements within the Group are considered to no longer be in place in their current format following structural changes to the business resulting from the two scenarios.

In light of the partial impairment, if any of the key assumptions were to be stressed then the estimated value-in-use would be sensitive to these for the year ended 31 December 2023, either favourably through impairment reversal or unfavourably through additional impairment.

Changes in the discount rate or terminal growth rate will impact the Company's assessment of the value in use. If adjusted independently of all variables, a 200bps increase or decrease in discount rate would decrease/increase the value in use estimate by -£6.0 million/+£8.2 million. A 100 bps increase or decrease in terminal growth rate would increase/decrease the value in use estimate by +£2.5 million/ -£2.3 million.

If estimated origination growth rates were to increase or reduce by 5% then the value in use estimate would increase/ decrease and impairment would decrease/increase by +£8.3 million/ -£8.3 million.

There are no reasonably possible changes in the assumptions used in the exit scenario that would have a material impact on the calculation of value in use.

After the impairment, cumulative impairment remains in relation to the investment in Funding Circle USA, Inc. of £137.7 million (2022: £110.6 million).

2. Financial risk management

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

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

Risk factors

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

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

Principal financial instruments

The principal financial assets and liabilities of the Company, from which financial instrument risk arises, are as follows:

- loans due from related undertakings;
- trade and other receivables;
- cash and cash equivalents; and
- trade and other payables.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2023

2. Financial risk management continued

Categorisation of financial assets and financial liabilities

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category as at 31 December 2023:

	Carried at amortised cost		Carried at fair value	
	Carrying amount £m	Fair value £m	Based on market derived data £m	Based on individual valuation parameters £m
Assets				
Loans due from related undertakings	**0.1**	**0.1**	**—**	**—**
Trade and other receivables	**0.2**	**0.2**	**—**	**—**
Cash and cash equivalents	**1.2**	**1.2**	**47.0**	**—**
	1.5	**1.5**	**47.0**	**—**
Liabilities				
Trade and other payables	**(0.2)**	**(0.2)**	**—**	**—**
	(0.2)	**(0.2)**	**—**	**—**

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

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

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

The Company's financial assets measured at fair value are all categorised as level 1 in both the current year and prior year.

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category as at 31 December 2022:

	Carried at amortised cost		Carried at fair value	
	Carrying amount £m	Fair value £m	Based on market derived data £m	Based on individual valuation parameters £m
Assets				
Loans due from related undertakings	0.1	0.1	—	—
Trade and other receivables	0.3	0.3	—	—
Cash and cash equivalents	4.8	4.8	45.3	—
	5.2	5.2	45.3	—
Liabilities				
Trade and other payables	(0.2)	(0.2)	—	—
	(0.2)	(0.2)	—	—

Financial instruments measured at amortised cost

Due to the short-term nature of the financial assets and liabilities measured at amortised cost, the carrying value approximates their fair value.

The fair value of financial assets held at fair value, comprising cash and cash equivalents, approximates their carrying value. Credit risk is mitigated as cash and cash equivalents are held with reputable institutions.

2. Financial risk management continued

Financial risk factors

Credit risk

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

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

	31 December 2023 £m	31 December 2022 £m
Non-current		
Loans due from related undertakings	—	—
Current		
Loans due from related undertakings	0.1	0.1
Trade and other receivables:		
– Amounts due from related undertakings	—	0.2
– Accrued interest	0.2	0.1
Cash and cash equivalents	48.2	50.1

Liquidity risk

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

The Company's liquidity position is monitored and reviewed on an ongoing basis by the Directors.

The amounts disclosed in the below tables are the contractual undiscounted cash flows.

The maturity analysis of financial assets and liabilities at 31 December 2023 and 31 December 2022 is as follows:

At 31 December 2023	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m
Financial assets				
Trade and other receivables	0.2	—	—	—
Cash and cash equivalents	48.2	—	—	—
Loans due from related undertakings	0.1	—	—	—
	48.5	—	—	—
Financial liabilities				
Trade and other payables	(0.2)	—	—	—
	(0.2)	—	—	—

At 31 December 2022	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m
Financial assets				
Trade and other receivables	0.3	—	—	—
Cash and cash equivalents	50.1	—	—	—
Loans due from related undertakings	0.1	—	—	—
	50.5	—	—	—
Financial liabilities				
Trade and other payables	(0.2)	—	—	—
	(0.2)	—	—	—

Notes forming part of the Company financial statements continued

for the year ended 31 December 2023

2. Financial risk management continued

Financial risk factors continued

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's market risk arises from open positions in interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

a) Other price risk

The Company is not exposed to market risk with respect to financial instruments as it does not hold any marketable equity securities.

b) Cash flow and fair value interest rate risk

Interest on cash and cash equivalent balances is subject to movements in base rates. The Directors monitor interest rate risk and note that rates are considered to have peaked in the near term and are expected to level off and fall over time. A 200 bps decrease in base rates could decrease the annual interest earned by c.£1.0 million (2022: 1.0% increase and c.£0.5 million).

c) Sensitivity analysis

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed above, the Company does not have significant exposure to interest rate risk, cash flow risk or other price risk and therefore no sensitivity analysis for those risks has been disclosed.

d) Foreign exchange risk

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign exchange risk is disclosed in note 14 to the consolidated financial statements.

Capital management

The Company considers its capital to comprise equity share capital, share premium, share options reserve and retained earnings.

The Directors' objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders.

The Company is not subject to any externally imposed capital requirements.

The Directors monitor a number of KPIs at both the Company and individual subsidiary level on a monthly basis. As part of the budgetary process, targets are set with respect to operating expenses in order to effectively manage the activities of the Company. Performance is reviewed on a regular basis and appropriate actions are taken as required. These internal measures indicate the performance of the business against budget/forecast and confirm whether the Company has adequate resources to meet its working capital requirements.

3. Company (loss)/profit for the year

The Company made a comprehensive loss for the year of £28.7 million (2022: comprehensive profit of £41.4 million).

4. Employees

The Company had no employees during the current or prior year other than Directors who numbered 8 (2022: 8). The Company did not operate any pension schemes during the current or preceding year. Directors received emoluments in respect of their services to the Company during the year of £1.9 million (2022: £2.1 million). For further information, see the Remuneration Report on page 108.

5. Investments in subsidiary undertakings

	2023 £m	2022 £m
Balance at 1 January	**333.3**	281.9
Capital contribution regarding employee services in subsidiaries	**5.4**	5.0
Capital additions	**—**	50.7
Return of capital	**(1.0)**	(49.6)
(Impairment)/reversal of impairment	**(27.1)**	45.3
Balance at 31 December	**310.6**	333.3

Investments in subsidiary undertakings, which are listed in note 27 of the Group financial statements, are all stated at cost less any provision for impairment.

5. Investments in subsidiary undertakings continued

During the year the Company made capital contributions in the form of cash investments of £nil (2022: £10.0 million) to Funding Circle USA, Inc. and non-cash investment of £nil (2022: £40.7 million) to Funding Circle Ltd. The Company received £1.0 million cash (2022: £8.9 million) from Funding Circle Global Partners Limited and £nil million non-cash (2022: £40.7 million) from Funding Circle USA, Inc. as capital redemptions.

In addition to the above, the Company recognised a capital contribution of £5.4 million (2022: £5.0 million) representing the service cost for the employees of its subsidiaries, under the Company's share option schemes.

During the year ended 31 December 2023, the Company identified an impairment of £27.1 million (2022: impairment reversal of £45.3 million) in relation to the Company's investment in Funding Circle USA, Inc. Refer to note 1: Key sources of estimation uncertainty.

The cumulative amount of impairment losses in relation to investment in subsidiaries is £217.9 million (2022: £190.8 million).

6. Trade and other receivables

	31 December 2023 £m	31 December 2022 £m
Amounts due from related undertakings	**—**	0.2
Prepayments	**0.2**	0.2
Accrued income	**0.2**	0.1
	0.4	0.5

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

7. Loans due from subsidiary undertakings

	31 December 2023 £m	31 December 2022 £m
Stichting Derdengelden Funding Circle	**0.1**	0.1
Current portion	**0.1**	0.1

Amount due from Group undertakings

During 2023, the Company continued to operate a loan facility agreement with Funding Circle Ltd (subsidiary company). Under the terms of the agreement, the Company provided an unsecured sterling revolving credit facility of a total principal amount not exceeding £20.0 million (2022: £20.0 million) to Funding Circle Ltd which is repayable at the end of the facility term of five years on 5 August 2025. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England.

During the year, the Company has provided £nil (2022: £nil) of additional funding under the facility agreement. Total interest income of £nil (2022: £nil) has been recognised in the Company statement of comprehensive income. The facility was drawn by £nil (2022: £nil) at the balance sheet date.

During the year, the Company operated a revolving credit facility to Funding Circle CE GmbH of up to €2.0 million (2022: up to €2.0 million). Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 18 July 2024. The facility was drawn by £nil (2022: £nil) at the balance sheet date.

During the year, the Company continued to operate a term loan facility to Funding Circle USA, Inc. of up to £7.7 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 13 January 2025. In addition, the Company continued to provide a revolving credit facility to Funding Circle USA, Inc. of up to $3.0 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 27 January 2025.

During the year, total interest income of £nil (2022: £nil) has been recognised in the Company statement of comprehensive income. The facilities were drawn by £nil (2022: £nil) and $nil (2022: $nil) at the balance sheet date.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2023

7. Loans due from subsidiary undertakings continued

Amount due from Group undertakings continued

During the year, the Company continued to operate a revolving credit facility to Funding Circle USA, Inc. of up to £10.0 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 21 January 2026.

During the year, the Company has provided £7.8 million (2022: £nil) of additional funding under the facility agreement. Funding Circle USA, Inc. settled certain amounts due under the intercompany loan obligations cumulative of interest of £7.8 million (2022: £nil). The facility was drawn by £nil (2022: £nil) at the balance sheet date.

8. Trade and other payables

	31 December 2023 £m	31 December 2022 £m
Accruals	**1.2**	0.9
Taxes and social security costs	**0.4**	0.5
Other creditors	**0.2**	0.2
Amounts due to related undertakings	**—**	—
	1.8	1.6

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

9. Share capital and share premium account

The movement on these items is disclosed in notes 15 and 16 to the consolidated financial statements.

10. Retained earnings

	£m
At 1 January 2022	31.4
Transfer of share option costs	2.6
Purchase of own shares	(8.7)
Profit for the year	41.4
At 31 December 2022	66.7
Transfer of share option costs	3.8
Purchase of own shares	(1.8)
Loss for the year	(28.7)
At 31 December 2023	**40.0**

11. Notes to the Company statement of cash flows

Cash outflow from operating activities

	Year ended 31 December 2023 £m	Year ended 31 December 2022 (re-presented)[1] £m
(Loss)/profit before taxation	**(28.7)**	41.4
Adjustments for:		
Non-cash employee benefits expense – share-based payments	**—**	0.7
Impairment/(reversal of impairment) charge	**27.1**	(45.3)
Other non-cash movements	**0.1**	—
Changes in working capital		
Movement in trade and other receivables	**0.1**	—
Movement in trade and other payables	**0.3**	(0.4)
Net cash outflow from operating activities	**(1.1)**	(3.6)

1. The comparative year to 31 December 2022 has been re-presented to present "Interest received" which was previously a component of investing activities as a component of operating income to mirror the re-presentation of interest on cash and cash equivalents within "Interest income" which was previously presented within "Finance income". As a result it is not disclosed separately above.

Cash and cash equivalents

	2023 £m	2022 £m
Balance at 1 January	**50.1**	63.4
Cash flow	**(1.9)**	(13.3)
Balance at 31 December	**48.2**	50.1

These comprise cash held by the Company, short-term bank deposits with an original maturity of three months or less and money market funds. The carrying amount of cash balances approximates their fair value. As at 31 December 2023, money market funds totalled £47.0 million (2022: £45.3 million).

12. Related parties

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2023 £m	31 December 2022 £m	31 December 2023 £m	31 December 2022 £m
Short-term payables/receivables				
Funding Circle Ltd	**—**	0.1	**—**	—
Funding Circle USA, Inc.	**—**	0.1	**—**	—
Intercompany loans				
Funding Circle USA, Inc.	**—**	—	**—**	—
Stichting Derdengelden Funding Circle	**0.1**	0.1	**—**	—
	0.1	0.3	**—**	—

During the year, the Company received payment of expenses for amounts of £0.5 million (2022: £0.3 million) from Funding Circle Ltd.

During the year, the Company received return of capital of £1.0 million (2022: £8.9 million) from Funding Circle Global Partners Limited.

During the year, the Company made a capital contribution of £nil (2022: £10.0 million) to Funding Circle USA, Inc.

As at the year end, the Company was owed a cumulative amount of £0.1 million (2022: £0.1 million) from loans with Stichting Derdengelden Funding Circle.

During the prior year ended 31 December 2022, the Company made a non-cash capital contribution to Funding Circle Ltd of £40.7 million in exchange for the subsidiary's intercompany payable to Funding Circle USA, Inc. and received a non-cash return of capital from Funding Circle USA, Inc. of £40.7 million in consideration for the subsidiary's intercompany receivable from Funding Circle Ltd. The intercompany balance that was capitalised into the net investment in the subsidiary undertakings through this transaction primarily related to the transfer pricing arrangements between the entities.

See note 14 in relation to remuneration of key management personnel.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2023

13. Parent Company guarantee – exemption from audit for subsidiary companies

The following UK entities, all of which are 100% owned by the Group, are not subject to an audit by virtue of section 479A of the Companies Act 2006 relating to subsidiary companies:

Company	Registration number
Funding Circle BB Limited	12593368
Funding Circle Eclipse Lending Limited	12570773
Funding Circle Focal Point Lending Limited	12407296
Funding Circle Global Partners Limited	10554628
Funding Circle Polaris Lending Limited	13216286
Funding Circle Trustee Limited	07239092

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

The Company will guarantee the debt and liabilities of the European subsidiary Funding Circle CE GmbH and therefore meets the requirements of section 264(3) HGB and the entity is not subject to audit by virtue of this guarantee. The Company has assessed the probability of loss under the guarantee as remote.

The following UK entities, which are 100% owned by the Group, are exempt from the requirement to prepare accounts by virtue of section 394A and section 448A of the Companies Act 2006 relating to the individual accounts of dormant subsidiaries:

Company	Registration number
Funding Circle Asset Finance Limited	07832868
Funding Circle Property Finance Limited	08896582
Funding Circle Midco Limited	11793162
Funding Circle Horizon Lending Limited	13451185
Made To Do More Limited	10575978

14. Remuneration of key management personnel

The remuneration of key management personnel is disclosed in note 23 to the consolidated financial statements.

15. Ultimate controlling party

In the opinion of the Directors, the Group does not have a single ultimate controlling party.

Alternative performance measures

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition
Income statement			
Adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Refer to note 3.	Profit for the year before finance costs (being the discount unwind on lease liabilities), taxation, depreciation and amortisation and impairment ("AEBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items. The definition of AEBITDA has been updated and the comparative re-presented as described in Note 1.
Investment AEBITDA and operating AEBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Refer to Finance Review.	Investment AEBITDA is defined as investment income, investment expense and fair value adjustments and operating AEBITDA represents AEBITDA excluding investment AEBITDA.
Net investment income	Net income.	Refer to Finance Review.	Net investment income represents investment income less investment expense.
Cash flow			
Free cash flow	Cash generated from operating activities.	Refer to Finance Review.	Net cash flows from operating activities less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows and excludes cash flows on draw downs and repayment of FlexiPay lines of credit.

Glossary

Term	Definition
9th generation	We use generational factors at Funding Circle to describe the number of fundamental enhancements/revisions that have been made to the credit modelling used to determine borrower creditworthiness for lending. In the UK we are currently using a 9th generation credit model. In the US we are on our 6th generation.
Amortisation	In lending terms, the process by which the outstanding balance on a loan reduces through repayments made by the borrower, until the loan is fully repaid. Not to be confused with the general accounting term relating to the equivalent form of depreciation for intangible assets.
API	Application Programming Interface. Term used to describe a technical solution facilitating customer access to Funding Circle's platform and capability via a partner website to create seamless provisioning of Funding Circle products and services on its site. We also refer to this solution as an "embedded" route to reaching potential new borrowers.
BBB	British Business Bank. A state-owned economic development bank established by the UK government. Its aim is to increase the supply of credit to small and medium-sized enterprises as well as providing business advice services. The BBB has administered all the recent government-backed loan schemes in the UK on behalf of the Secretary of State for Business, Energy & Industrial Strategy.
BBLS	Bounce Back Loan Scheme. A UK government-backed low fixed interest loan scheme intended to support businesses through the Covid-19 pandemic. The scheme facilitated loans of a maximum of £50,000 for up to six years, and these were 100% backed by a government guarantee for the lender. The borrower always remained fully liable for the debt. All Funding Circle loans under BBLS were to existing core lending customers and Group total lending under the scheme amounted to c.£35 million.
Beta testing	The second phase of testing a new product using real customers in a live, but restricted environment.
Borrowers	Actual or prospective borrowers participating on the Group's lending platform.
Capital Markets	A functional division within Funding Circle that deals with all relations and activities associated with institutional investors.
CBILS	Coronavirus Business Interruption Loan Scheme. UK government-backed loan scheme intended to provide support for small businesses (up to £45 million annual turnover) through the Covid-19 pandemic. The scheme facilitated loans from £1,000 to £5 million for up to six years, with the first 12 months of interest charges, and lender levied fees covered by the government. The loans were initially 80% backed by government guarantee for the lender, reducing later to 70%, but the borrower always remained fully liable for the debt. CBILS closed to new applications on 31 March 2021. Funding Circle was the third largest approver through the scheme among 90 accredited providers, facilitating some c.£3 billion of loans. Transaction fee yields on CBILS loans were fixed at 4.75%.
Circlers	Term used by the Group to refer to its employees.
Cohorts	Term used to denote loan groupings. Loan cohorts are determined by their year of origination. Investor cohorts denote loan groupings according to the loan funding institution.
Company	When capitalised, "Company" refers to Funding Circle Holdings plc.
Credit bureau	A company that collects information relating to credit ratings of companies and/or individuals and makes this available to other financial institutions.
Credit model	Mathematical model used to estimate the probability for a customer to default on a loan.
Default	Term used to describe loans where the customer has failed to repay a loan in accordance with the terms of the agreement. Loans are placed into default when it is deemed likely the customer can no longer meet the terms of the scheduled loan repayments (e.g. due to company liquidations and insolvencies) or when the borrower has consistently failed to pay in accordance with the terms and it has not been possible to arrange an alternative repayment schedule. A default affects the credit score of the borrower.
Delinquencies	Term used to describe loans where the borrower is late making payment(s). This need not affect a customer's credit score if the borrower is able to agree and meet a revised schedule for repayments.
Developing Markets	The name formerly used for the primary reporting segment for the Group now referred to as "Other Loans", consisting of operations in Germany, the Netherlands and Spain (all of which the Group has now exited and are in wind down).
EBT	Employee Benefit Trust. A trust under which shares in the Company are held on behalf of the employees.
Employee engagement score/index	Employee engagement is a function of the relationship between the Group and its employees. We measure this through surveys designed to help understand and improve the workplace and culture so that our employees feel more connected and dedicated to the Group goals and values.
ERMF	Enterprise Risk Management Framework.

Term	Definition
FCA	Financial Conduct Authority. The UK institution responsible for regulating financial institutions.
FlexiPay	FlexiPay is Funding Circle's new line of credit product that allows businesses to make purchases and then spread the cost over three months, paying back in three equal monthly instalments. It's designed to satisfy the working capital needs of SME businesses and is currently available in the UK.
FlexiPay card	FlexiPay card is another way for customers to use their FlexiPay line of credit, helping them to pay for everyday business expenses and make purchases.
Forward flow agreements	Agreements made between Funding Circle and institutional investors that indicate the lending funds they intend to provide for borrowers. Agreements generally stipulate the key lending terms, target borrower metrics, total funds earmarked for lending and the period over which they will be deployed.
Institutional investors	Actual or prospective institutional investors participating on the Group's platform who provide the funds to lend to SME borrowers, and who also take the credit risk associated with the loans.
FVTPL	Fair Value Through Profit or Loss. Term used to describe those securities where the business model under which these investments are held by the Group remains for these to be sold; and hence the fair value of these investments is reported through the P&L.
Government-backed loan schemes	Term used to describe the various schemes deployed by governments to support their economies through economic shocks, most recently the Covid-19 pandemic. These include CBILS, BBLS and RLS in the UK and PPP in the US (see definitions). Invariably, government-backed loan schemes have conferred various advantages to either or both the institutional investors and the borrowers making them more attractive products compared to normal commercial lending. Lenders and lending platforms normally require formal accreditation to be able to provide the loans under these schemes.
IDL	Instant Decision Lending. The part of our platform that facilitates automatic decisions on borrowers' loan applications. In the UK, the system enables applications to be completed easily in around six minutes, with decisions in as little as nine seconds and the money in the borrower's account in 24 hours.
IFRS	International Financial Reporting Standards, as adopted by the European Union.
LaaS	Lending as a Service. A distribution platform launched in the US. Funding Circle's offering allows financial institutions to give their customers a fully integrated, digital end-to-end borrowing experience without the significant investment and resources required to build or buy their own platform. By leveraging Funding Circle's technology and expertise, financial institutions can quickly and easily enter the digital lending market, offer loans to their business customers and earn attractive interest and fee revenue.
LuM	Loans under Management. The total value of outstanding principal and interest to borrowers; includes amounts that are overdue (delinquencies), but not loans that have defaulted and excludes unallocated cash collections.
LTIP	Long-term Incentive Plan. A scheme used to reward employees.
MAR	Market Abuse Regulation. EU regulation designed to combat market abuse in financial markets.
Marketplace	Term used to describe our referral of borrowers (who fall outside our credit risk or service capability) to specialist lenders who can meet their needs. Funding Circle generally receives a fee for such referrals.
NPS	Net Promoter Score. An index ranging from -100 to +100 that measures the willingness of customers to recommend a company's products or services to others. The more positive the score, the more likely a customer is to recommend the service.
Origination	Term used to describe the process of a loan taken out by a borrower.
P2P lending	Peer-to-peer lending. A legacy service that facilitated retail investments in loans to SME businesses on a retail platform. Funding Circle paused P2P lending in April 2020, and in March 2022 the Group confirmed that it would permanently close the retail platform for new investments. Some legacy historical P2P lending remains on the Group balance sheet, but this will reduce to £nil as the loans continue to amortise.
PPP	Paycheck Protection Program. A US government (SBA)-backed loan scheme to help SMEs keep their workforces employed during the Covid-19 pandemic. Borrowers are able to apply for forgiveness on these loans where they can prove that the proceeds have been spent on payroll costs and other eligible expenses. The scheme closed to new business on 31 May 2021. Accounting for PPP loans differs to normal loans with transaction fees spread over the expected life of the loans under IFRS9 (as the loans must be held on balance sheet at amortised cost until forgiven, and with no servicing fees earned on PPP loans.
PPPLF	The Paycheck Protection Program Liquidity Facility. The name of the funding facility used by the US Government for PPP loans.

Glossary continued

Term	Definition
RLS	Recovery Loan Scheme. A UK government-backed loan scheme to help businesses recover from the effects of Covid-19. To date there have been three different RLS schemes, designed to support access to finance for UK businesses as they looked to invest and grow. Term loans of up to £2 million and six months have been available through the scheme at improved commercial terms. The government provided lenders under the scheme with 70% guarantees against the outstanding balance of the facility after normal recovery processes. The borrower always remains fully liable for the debt.
SBA	Small Business Administration. US governmental institution established in 1953 to help small businesses succeed by providing counselling, capital, contracting expertise, information resources and a voice for small businesses.
Securitisation	The process by which multiple loans are pooled and packaged into interest-bearing securities (bonds). Horizontal securitisation denotes the packaging of loans into cohorts ranked according to risk potential: from the lowest risk, lowest reward, first receiver of loan yield, to the highest risk, highest reward bearer of first losses and receiver of surplus yield on the loans. In terms of existing horizontal securitisations on the Group balance sheet, Funding Circle temporarily holds the residual tranches with the intention to sell once seasoned. Vertical securitisation denotes a packaging of loans where all investors take their share of the yield across the entire pool of loans. In terms of existing vertical securitisations on the Group balance sheet, Funding Circle was required by regulation to retain a 5% equal participation in all classes of bonds issued.
Segment	The principal reporting segments of our operations, representing the divisional structure through which the business is currently managed. Namely UK Loans, US Loans, Other Loans (formerly Developing Markets) and New Products.
Servicing yield	The ratio of the servicing fee (the fee charged to institutional investors for managing their loans) to the amortised loan balance. Typically, the servicing yield is between 1% and 1.25% pa of the loan balance.
SMB	Small and medium-sized businesses. Term used in the US to represent smaller businesses (the US equivalent of the UK's SMEs).
SME	Small and medium-sized enterprises. Term used in the UK to represent smaller businesses (the UK equivalent of the US's SMB).
SONIA	Sterling Overnight Index Average. A UK interest rate benchmark that came in as a replacement for LIBOR (London Interbank Offer Rate).
SPV	Special Purpose Vehicle. A subsidiary created by a company to isolate a financial risk. The Group has held a number of SPVs housing securitised loans.
TAM	Total Addressable Market. An estimation of the total potential market value for which Funding Circle can compete.
Unrestricted cash	Term used to describe the cash on the balance sheet that is available for use by Funding Circle. This excludes cash balances being held on behalf of third parties, like governments and bondholders.
Warehousing	Process whereby loans that have been issued to borrowers are pooled into a holding warehouse with the intention that these are ultimately being held for packaging and reselling to a third party investor.

Shareholder and Company information

Shareholder information

Receiving shareholder information by email:

You can opt to receive shareholder information from us by email rather than by post. We will then email you whenever we add shareholder communications to the Company website. To set this up, please visit www.shareview.co.uk and register for electronic communications ("e-comms").

If you subsequently wish to change this instruction or revert to receiving documents or information by post, you can do so by contacting the Company's registrars at the address shown in the Company information opposite. You can also change your communication method back to post by logging in to your Shareview account and going to "update my communication preferences" within the "Quick links" section.

Registrar

The Company's Registrar is Equiniti Limited.

Equiniti provide a range of services to shareholders.

Extensive information including many answers to frequently asked questions can be found online.

Use the QR code to register for FREE at www.shareview.co.uk

Equiniti's registered address is:

Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Tel*: +44 (0) 371 384 2030

*Lines are open from 8.30am to 5.30pm, UK time Monday to Friday (excluding public holidays in England and Wales).

Please use the country code when dialling from outside the UK.

Shareholder enquiries

If you have any queries relating to your shareholding, dividend payments or lost share certificates, or if any of your details change, please contact the Company's registrars by visiting www.shareview.co.uk or by using the contact details above.

Annual shareholder calendar

Final results announced	7 March 2024
Annual Report published	April 2024
Annual General Meeting	15 May 2024

Interim Report

As part of our e-comms programme, we have decided not to produce a printed copy of our Interim Report. We will instead publish the report on our website. It is expected that this year's report will be available on our website in September.

Cautionary statement

Certain statements included in our 2023 Annual Report, or incorporated by reference to it, may constitute "forward-looking statements" in respect of the Group's operations, performance, prospects and/or financial condition.

Forward-looking statements involve known and unknown risks and uncertainties because they are beyond the Group's control and are based on current beliefs and expectations about future events about the Group and the industry in which the Group operates.

No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. If the assumptions on which the Group bases its forward-looking statements change, actual results may differ from those expressed in such statements. The forward-looking statements contained in this report reflect knowledge and information available at the date of this Annual Report and the Group undertakes no obligation to update these forward-looking statements except as required by law.

This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase, any shares or other securities in the Company, and nothing in this report should be construed as a profit forecast.

Company information

Directors

Executive Directors

L Jacobs (Chief Executive Officer)
O J White (Chief Financial Officer)

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A D Learoyd (Chair)
S Desai CBE (Founder)
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G Gopalan
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N A Rimer
H Beck
M J W King

Company Secretary

L K Vernall

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Funding Circle Holdings plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Amadeus Silk, an FSC® certified material.

This document was printed by Pureprint Group using its environmental print technology, with 99% of dry waste diverted from landfill, minimising the impact of printing on the environment. The printer is a CarbonNeutral® company.

Both the printer and the paper mill are registered to ISO 14001.

Produced by
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