DISTRIBUTION FINANCE CAPITAL HOLDINGS PLC

Interim Financial Report

For the six month period ended 30 June 2019

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Chairman's Statement

As Chairman of Distribution Finance Capital (referred to as "DFC", the "Group", the "Company" and "we"), it is very pleasing to see how the business has continued to evolve and grow over the past 6 months. It has been a busy period, with our demerger and separate listing on the AIM market in May, a transaction which was done in under 3 months and successfully provided the basis for us to progress our bank licence application, although we were unable to complete the final stages required within the statutory timeline. Following the withdrawal of our application at the start of June, we re-submitted in early August and we remain confident that with the required changes made we will be in a position to complete the licencing process during Q4 of this year and launch to market with a range of deposit products.

Of course the work needed to execute on the demerger and listing, and to complete the licence application, caused considerable disruption to the business. Despite this it is a significant achievement that we continued to operate the core lending activity very much in line with plan, with assets vs. the year end up 48% at £168 million, which was ahead of plan.

Maintaining Strong Governance

I would like to take this opportunity to thank David Bateman, who stepped down from the Board at listing, for all his support. He was instrumental in the early stages of DFC's set up and he's provided great advice and support over the last couple of years. At the same time, I am happy to welcome James van den Bergh to the Board, who I'm sure will provide the same level of commitment and insight into the future.

DFC has operated with a high degree of governance over the past 18 months in anticipation of becoming a bank. Since early 2018 the Board has had a majority of independent directors and in line with any UK bank we have run a range of governance committees at both a Board and Executive Level. I would like to thank both Mark Stephens (Chair of REMCO, NOMCO and Board Risk) and Carole Machell (Chair of Board Audit) in particular for their support over the past 6 months as the listing process resulted in a considerable amount of work and review by all the key governance committees of the business. The whole Board has demonstrated great commitment and reacted with vigour to the challenges of the last 6 months.

At executive level we are very lucky to have Chris Dailey at the head of an excellent executive management team and he and they deserve the credit for a great performance and indeed staff commitment and capability at all levels has been exemplary. Nevertheless, we have further strengthened the business with additional hires into key positions including a General Counsel. We fully anticipate being a listed bank by the end of the year and are confident we have the framework and resources in place to meet the best standards of corporate governance, risk management and controls which you would expect.

Outlook

Our first half performance is testament to the strength and depth we have built across the business in terms of people and the value of our proposition in the market. Customer growth in particular has been very encouraging, proving, as we move into our second full year of operation, the underlying value of the proposition.

While clearly there is some uncertainty in certain sectors of the market given the broader macro-economic situation, but as yet we have not seen any significant changes to customer behaviour. Our model is deliberately designed to operate across different industry sectors, which will allow us to rebalance our business quickly should the need arise.

Looking at where we have come from in such a short time, I look forward with great confidence to leading a highly capable entrepreneurial team at both a board and executive level. There are considerable opportunities to accelerate our growth and build on the very solid and impressive foundations we have laid down.

Chief Executive's Statement

From an idea and a start in June 2016 with just 2 people, a lending pilot launch in mid 2017 which grew to £30m of assets at the end of 2017 to now a stand-alone listed lending business with over 70 people, 66 manufacturers signed up and over £290m of credit lines extended to SMEs it has been an amazing journey so far. DFC has established itself over the past 3 years and the first half of 2019 has seen the business start to reach real maturity. I am honoured to have led the business as we have gone on this journey and am excited by the future we have ahead of us.

Clearly the most significant development in the first half of the year has been the demerger from TruFin Plc. TruFin Plc was an excellent owner, and I would like to take this opportunity to thank Henry Kenner in particular for his support, and I'm delighted he has agreed to remain on the Board where he can continue to provide insight and a broader strategic view which has been invaluable to me and the team over the past 3 years. The demerger, while earlier than planned, has given DFC a firm footing on which to continue to grow and an enviable investor base for a firm of our size and maturity. We see considerable opportunity for growth in our business, in the context of an SME funding market which continues to evolve in the coming years, and I am grateful for the support our shareholders have shown and the confidence they have demonstrated in the future prospects of our business.

Commercial Performance

Given our underlying asset mix our business remains quite seasonal, so it is pleasing that our results today, when compared to the first half of 2018 show an excellent 162% increase in assets and 181% rise in gross income to £168m and £5.4m respectively. Promisingly, we have also seen a significant rise on credit lines granted to customers as our brand and market reputation has begun to flow through. At just over £290m of extended credit lines, an increasing amount of our focus is on driving in-life utilisation at this level, with 66 manufacturers signed as well representing a further potential £300m-400m of as yet unapproved but demanded credit across their SME customer bases - we have already a very significant pipeline to execute even before considering the considerable opportunities which exist for both new products and customers.

As we have grown, we have continued to invest in both our people, notably doubling the size of our account management team to drive the execution of the current pipeline and ensure we maintain customer service levels. Critically we have also invested in our technology, and during the first half of 2019 we made several enhancements to our customer self service capability, and have begun the build out of our digital origination platform. This will facilitate the 2020 launch of a broader range of products both for our current customers and for new segments. As set out at IPO, we are committed to building a blended service model which addresses customers' desire for best-in-class digital experience and a flexible and personal level of service.

Risk Management

Since the balance sheet date of June 2019 DFC has incurred its first actual credit losses and as we can see our provisions at June 2019, at 38bp have risen from year end. These levels are in line with expectations and after over 2 years of lending and over £700m advanced to customers this reflects that we have been able to fully test our security model and loss assumptions before we scale further. The good news is that everything we expected from our people and our security, controls and asset based lending model was in line with expectations, demonstrating our overall risk management approach is robust and our underlying assumptions on recovery in a problem loan scenario are in line with actual results.

Overall, DFC's portfolio continues to perform well and our multi-level security model with overall portfolio advances running at 87% LTV vs. wholesale asset values provides considerable security across our loan book.

Outlook

The next 6 months are key for DFC in its development, with the expected launch of the bank and the development of new products and markets to deliver the plan for 2020 and beyond. Since the period end we have undertaken further investment to ensure we are well positioned to support our further plans but we have also retained an unyielding focus on executing for our current customers and pipeline and managing our risk.

In terms of Brexit, we have considered the possible impact for DFC of the removal of passporting - requiring us to consider different options in the event we decide to expand our lending outside of the UK market. However, from a regulatory perspective our more immediate focus is on delivering the bank launch in the UK. In terms of the Brexit related impact on the ground we have yet to see any material change to customer decisions, although we are alert to the risk that macro events will impact the product turn and corresponding SME ordering profile

in the second half of the year. In addressing this risk we have the advantage that we are relatively diverse in terms of asset mix, and we also have a good spread of manufacturer relationships such as with European (EU and non-EU) and US companies which may be experiencing different dynamics in their home or other markets. While we cannot be sure what the future may bring as the political situation evolves we do not see that there are material risks to the model at this time. As a business we will continue to monitor as events develop further and work closely with our customers at both a manufacturer and SME level to address any risks and also potential opportunities.

I remain convinced we have a great business and with the continued support of our customers, people, investors and partners we can deliver our business plan and accelerate our growth and capitalise on the many opportunities which we have in front of us.

Financial Highlights

	30 Jun 2019 6-month	30 Jun 2018 6-month	31 Dec 2018 12-month
Gross Revenue (£'000)	5,406	1,925	5,179
Loan Book (£'000)	168,027	64,138	113,795
Net Assets (£'000)	70,780	57,761	54,553
KPIs			
Loans advanced to customers in period (£million)	206	92	233
No. of manufacturer agreements in place	66	36	45
No. of live dealers	658	380	533
Total credit available to dealers (£million)	290	131	200

- Gross revenues were £5.4 million for the six month period to 30 June 2019 compared against £1.9 million for the six month period to 30 June 2018 and £5.2 million for the 12 month period up to 31 December 2018. This represents a 181% growth in gross revenues against 30 June 2018 results and the Group has recognised more revenue in a six-month period than the prior full year.

- Customer loan receivables increased by £55 million, representing a 48% increase from December 2018 position, giving a gross loan receivable balance at 30 June 2019 of £168 million.

Summarised Statement of Profit or Loss and Other Comprehensive Income:

	30 Jun 2019 6-month £'000	30 Jun 2018 6-month £'000	31 Dec 2018 12-month £'000
Gross revenues	5,406	1,925	5,179
Interest expense	(2,814)	(1,721)	(3,503)
Net income	**2,592**	**204**	**1,676**
Operating expenses	(7,130)	(4,076)	(8,654)
Impairment charges	(513)	(86)	(116)
Provisions for commitments and other liabilities	(31)	(98)	(171)
Exceptional items	(2,187)	-	-
Loss before taxation	**(7,269)**	**(4,055)**	**(7,265)**
Taxation	-	-	-
Loss after taxation	**(7,269)**	**(4,055)**	**(7,265)**
Other comprehensive income	9	-	1
Total comprehensive loss	**(7,260)**	**(4,055)**	**(7,264)**
Basic earnings per share (pence)	(17)	(43)	(54)

Basis of preparation

Distribution Finance Capital Holdings Plc (the "Company" or "DFCH Plc") acquired Distribution Finance Capital Ltd ("DFC Ltd") on 8th May 2019 and on 9th May 2019 gained admission to the Alternative Investment Market on the London Stock Exchange. Merger accounting methodology has been used for preparing these consolidated interim financial statements, meaning comparative information will be prepared as if the Group had existed and been formed in prior periods. This will enable informative comparatives to users given the underlying activities and management structure of the Group remain largely unchanged following the IPO. Therefore, these condensed financial statements have been prepared in accordance with the presentation and accounting standards applied within the audited financial statements of Distribution Finance Capital Ltd for the year 31 December 2018.

Gross revenues

Gross revenues predominantly comprise interest and similar income due on advances to customers together with customer facility and related fees. Gross revenues also include interest on bank cash balances and gains on debt securities.

Gross revenues were £5.41 million for the period, increasing by £3.48 million (181%) from June 2018. This was driven by the growth of the Group's loan book over this period to £168.1 million at June 2019 from £64.1 million at June 2018.

For the six month period to 30 June 2019 assets yielded 7.9% on average compared to 8.2% for the period to June 2018. This reduction is driven by the funding of more large customers and having to diversify the book into more industry sectors quicker than intended arising from liquidity constraints of our primary funding facilities during the second-half of 2018. Whilst not ideal, the advantage of this has been that we expanded our footprint quicker in terms of manufacturer relationships achieving a broader base from which to accelerate growth through 2019.

Interest expense

Interest expense is made up of interest on the Group's wholesale funding facility, interest on loans from the Trufin Group and interest on preference shares.

Interest expense was £2.81 million for the period, increasing by £1.09 million (64%) from June 2018. This increase is significantly lower than the proportional increase in the customer loan book as the cost of funds, expressed as a percentage of average customer receivables, reduced from 7.4% for June 2018 to 4.1% for June 2019. This reduction in cost of funds reflects the higher rate Trufin Group loan notes in place during the first quarter of 2018, the higher proportion of undrawn facility fees due on the wholesale funding facility to June 2018 and the equity injection of £25 million received from the Trufin Group in May 2019 upon demerger.

In June 2019 the Group entered into a revolving mezzanine credit facility of £40.3 million with funds affiliated with Ares Management Corporation. Alongside the existing Citibank facility, this has led to an increase in the wholesale cost of funds as the Group enters the second half of 2019.

Net income

Net income was £2.59 million for the period, increasing by £2.39 million (1,171%) from June 2018.

The net interest margin for the period was 3.8% compared to 0.9% for the period to June 2018. The increase in the net interest margin is due to the asset yield and cost of funds factors referred to above.

Operating expenses

As a business we have been effectively operating with the structures and governance of a bank since the first half of 2018. Operating expenses have increased from £4.08 million in June 2018 to £7.13 million in the period. The increased operating expenses reflect the investment made in staff resources and infrastructure to meet the significant growth achieved over the past 12 months and going forwards.

The operating expenses in the current period include £1.07 million of management and directors' bonuses paid in relation to the demerger and IPO. These bonuses were predominantly to cover the cost of loans advanced in respect of tax liabilities on shares issued to these individuals to reduce the dilution impact of their shareholdings arising from the issue of shares to Trufin prior to the demerger.

Impairment charges

Impairment charges for the period were £0.51 million, increasing by £0.43m from June 2018. These impairment charges relate to increases in IFRS 9 provisions. There have been no write-offs experienced by the business through to June 2019. The increase in impairment charge for the period to June 2019 compared to the equivalent period in 2018 results from the significant increase in loan book during the respective periods and also the increase in the IFRS9 provision (expressed as a percentage of the loan book) from 0.15% in December 2018 to 0.38% in June 2019 compared to an increase from 0.21% in December 2017 to 0.23% in June 2018. This increase in the IFRS 9 provision % relates to increases in the stage 3 provision from a small number of stage 3 cases arising in the period.

Exceptional items

Exceptional items of £2.19 million in the period relate to the professional fees incurred by the Group in respect of the demerger and IPO transaction that have been recognised as an expense.

Summarised Statement of Financial Position:

	30 Jun 2019 6-month £'000	30 Jun 2018 6-month £'000	31 Dec 2018 12-month £'000
Cash held at bank	34,544	33,556	7,556
Loans and advances to customers	168,027	64,138	113,795
Other assets	24,723	2,193	8,972
Total Assets	**227,294**	**99,887**	**130,323**
Financial liabilities	141,035	36,625	72,445
Other liabilities	15,479	5,501	3,326
Total Liabilities	**156,514**	**42,126**	**75,771**
Total Equity	**70,780**	**57,761**	**54,553**

The assets of the Group increased during the period by 74% to £227.3 million, primarily driven by the growth in the loan portfolio and also in respect of the equity injection of £25 million received in May 2019 prior to the demerger from Trufin.

The liabilities of the Group increased during the period by 107% to £156.5 million, primarily driven by an increase in wholesale funding.

Loans and advances to customers
Loan originations in the period were £206.0 million which is significantly ahead of loan originations in both the first half of 2018 (£92.1 million, 124% increase) and the second half (£141.3 million, 46% increase).

DFC finances SME's operating across the distribution supply chain and primarily focuses on financing products in five sectors:

- recreational vehicles, lodges and caravans;
- marine (typically smaller marine craft);
- motor vehicles (typically mopeds, scooters, motorcycles and light commercial vehicles but not cars);
- industrial equipment; and
- agricultural equipment

The Gross Loan receivables balance across these sectors at 30 June 2019, 31 December 2018 and June 2018 is shown in the table below.

	30 Jun 2019 £'000	31 Dec 2018 £'000	30 Jun 2018 £'000
Recreational Vehicles	86,595	56,489	35,918
Marine	29,019	25,520	16,266
Industrial Equipment	27,371	18,005	2,013
Motor Vehicles	18,136	9,724	6,285
Agricultural Equipment	8,024	4,375	3,924
Gross loan receivables	**169,145**	**114,113**	**64,406**

The table shows the continuing growth across all sectors in the six month periods ended December 2018 and June 2019 and the increased sector diversification of the loan book over this time.

Other assets

The increase in other assets during the period by 176% to £24.7 million is predominantly driven by the increase in debt securities held (UK Treasury Bills) from £5.0 million in December 2018 to £19.0 million at June 2019. This increase in debt securities is in part the initial utilisation of an element of the £25.0 million of equity received in May 2019 prior to the demerger.

Financial liabilities

Financial liabilities have increased during the period by 95% to £141.0 million. This mainly reflects an increase in wholesale funding during the period from £59.0 million to £121.5 million. This results from an increase in the senior drawing under the wholesale funding facility to fund the increase in the loan book together with the execution and drawing of a senior mezzanine facility in June 2019 that is in conjunction with this existing wholesale facility. The senior facility of this wholesale funding agreement was increased from £100.0 million to £155.0 million with the term extended by 12 months to December 2020. The senior mezzanine facility is £40.3 million with a concurrent term to December 2020.

Funding from the Trufin Group has also increased during the period from £10.3 million in December 2018 to £19.5 million in June 2019. This has resulted from receiving an additional £5 million in loan agreements from the TruFin Group and also converting £3.5 million of preference shares plus accrued interest into loan agreements prior to the IPO of DFCH plc.

Principal and Emerging Risks

The Group has developed and follows a “Risk Management Framework” which details how DFC defines and manages risks which are relevant to its business model and operations. It sets the requirements for our governance, culture and risk appetite frameworks supported by the Principal Risks structure which creates a common language to support the day to day management of those risks by efficiently and effectively identifying, measuring, control and monitoring of those risks in line with the firm’s governance, culture and risk appetite.

The Corporate Governance Framework details the governance accountability and structures put in place for the management of DFC’s operations to deliver against its strategic vision.

The Board and Management are committed to creating an effective risk culture across the firm and we lay this out in our Code of Ethics framework which details the values which underpin the DFC proposition and how we will apply them.

Finally, the Risk Appetite Framework details the requirements and responsibility to set and allocate the firms risk appetite across the firm to support its strategic vision. Our aim is to have a Risk Appetite Framework which ensures there is a clear Business and Risk Strategy which aligns to the Boards Risk Appetite, and we describe this in such a way that it is understandable and is driven appropriately through the firm.

We have defined principal risks to help shape our policy and control framework. They create structure to our policy framework and clear ownership/responsibility for assessing performance and completeness.

Credit Risk:

The risk of financial loss arising from a client, customer or counterparty failing to meet their financial obligations to DFC to repay in accordance with agreed terms. The Group takes a proactive approach to monitoring the credit risk of its commercial lending through regular contact and review of its customers. In addition to the comprehensive customer onboarding process, the Group also conducts asset audits to verify the collateral status throughout the life of the loan.

Treasury Risk:

Treasury Risk covers three highly related risks relating to the management of the resulting customer assets and liabilities. The Group uses a monthly Asset and Liability Committee (ALCO) as a forum to monitor and discuss these risks. Furthermore, treasury risk Key Performance Indicators (“KPIs”) are agreed and reported on a monthly basis to the Board.

Liquidity Risk - the risk that the Group is not able to meet its financial obligations as they fall due or that it does not have the tenor and composition of funding and liquidity to support its assets.

Capital Risk - the risk that the Group has an insufficient amount or type of capital to support the regulatory requirements of its business activities through normal and stressed conditions.

Interest Rate Risk - the risk of financial loss through un-hedged or mismatched asset and liability positions due to interest rate changes.

Operational Risk:

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (e.g. fraud). The Operational Risk Framework covers all processes, people and systems and sets across the firm the: Risk Management Process we promote of Identify, Measure, Control and Monitor; Coverage and requirements for Risk and Control Self Assessments and New Product Approval; and setting of Key Risk and Control Indicators across all risks. A robust operational event management and escalation process is in place which includes a risk events register. Use and monitoring of insurance including professional indemnity and D&O liability insurance. At a minimum, these indicators are reviewed at a monthly formal Operating Committee.

Conduct Risk:

The risk of detriment caused to DFC's customers due to inappropriate execution of its business activities and processes, including the sale of unsuitable products. The Conduct Risk Policy outlines our approach and process for ensuring good customer conduct outcomes. It is supported by specific policies on Anti-Bribery and Corruption; Conflicts of Interest, Financial Crime, Onboarding/Anti-Money Laundering/Know Your Customer, and Whistleblowing policies which detail the specific steps and responsibilities across the firm including the firm's Money Laundering Reporting Officer who sits within the Risk function.

Reputational Risk:

Reputational risk is the risk of loss or imposition of penalties, damages or fines from the failure of the firm to meets it legal obligations including regulatory requirements. DFC operates within the context of the UK legal and regulatory environment and the Reputational Risk policy sets responsibility within DFC is ensure the firm is aware of both current and upcoming legal or regulatory changes and plans/implements those requirements appropriately.

Macro-economic Risk and Brexit:

The Directors, at least quarterly, perform a review of current economic projections and a horizon scan of risks and proposed management actions to mitigate where possible a perceived risk outside of risk appetite. The Group's structure and license requirements are not impacted by Brexit as it only lends to UK based firms from a UK legal entity. However, the Group could be impacted by varying demand for credit and higher loss rates from customers due to changes in macro-economic factors (such as weak GDP, or higher interest rates in the UK), or from higher costs of doing business for our customers (such as higher import prices due to potential new tariffs or extreme movements in the purchasing power of Sterling). These potential risks could impact our customers margins, profitability and in more extreme scenarios lead to much higher levels of insolvency. However, as the Group is primarily a secured lender on short duration loans with uncommitted lines, there are a number of management levers which can be applied rapidly, and the Directors will continue to actively monitor the situation to ensure customers are supported within the agreed risk appetite. On this basis Brexit is not expected to cause a material adverse impact on the Group's resources.

Risk Management

The Group has risk committees and formal risk procedures in place which aim to manage risk effectively. The systems and processes, guidelines and policies are continually reviewed and updated and effectively communicated to all personnel to ensure that resources, governance and infrastructure are appropriate for the increasing size and complexity of the business.

We manage the risks of the Group by making judgements, including decisions (based on assumptions about economic factors) about the level and types of risk that the Group is willing to accept in order to achieve its business objectives, the maximum level of risk the Group can assume before breaching constraints determined by liquidity needs and its legal obligations.

The Directors confirm, to the best of their knowledge, that the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that the Interim Financial Report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

By order of the Board

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Chris Dailey
Director
18 September 2019

Deloitte LLP (referred to as "we" within the independent review report to Distribution Finance Capital Holdings Plc only) have been engaged by the Group to review the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2019 which comprises the profit and loss account, the statement of financial position, the statement of changes in equity, the cash flow statement and related notes 1 to 29. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

This report is made solely to the Group in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Group those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed consolidated set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Statutory Auditor
London, UK
18 September 2019

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Interest and similar income	4	5,208	1,763	4,828
Interest and similar expenses	6	(2,814)	(1,721)	(3,503)
Net interest income		**2,394**	**42**	**1,325**
Fee income	7	180	162	351
Net fee income		**180**	**162**	**351**
Gains on debt securities	19	18	-	-
Total operating income		**2,592**	**204**	**1,676**
Staff costs	8	(5,467)	(2,717)	(5,851)
Other operating expenses	9	(1,540)	(1,340)	(2,695)
Depreciation and amortisation	15,16	(123)	(19)	(108)
Total operating loss before impairment losses		**(4,538)**	**(3,872)**	**(6,978)**
Provision for commitments and other liabilities	11	(31)	(98)	(171)
Net impairment loss on financial assets	12	(513)	(86)	(116)
Exceptional expenses	10	(2,187)	-	-
Loss before taxation		**(7,269)**	**(4,055)**	**(7,266)**
Taxation	14	-	-	-
Loss after taxation from continuing operations		**(7,269)**	**(4,055)**	**(7,266)**
Other comprehensive income: Items that may subsequently be transferred to profit or loss:				
Fair value movements on debt securities	19	9	-	1
Total other comprehensive income for the year, net of tax		**9**	**-**	**1**
Total comprehensive loss for the year attributable to equity holders		**(7,260)**	**(4,055)**	**(7,264)**
Earnings per share		pence	pence	pence
Basic and diluted EPS	27	(17)	(43)	(54)

The notes on pages 18 to 46 are an integral part of these financial statements.

	Notes	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Assets				
Cash and cash equivalents		34,544	33,556	7,556
Loans and advances to customers	18	168,027	64,138	113,795
Debt securities	19	19,042	-	4,994
Trade and other receivables	20	4,298	1,696	2,862
Property, plant and equipment	15	226	123	230
Right-of-use assets		448	-	-
Intangible assets	16	687	374	620
Assets classified as held for sale	17	22	-	266
Total Assets		**227,294**	**99,887**	**130,323**
Liabilities				
Trade and other payables	24	14,178	5,298	2,479
Financial liabilities	23	141,035	36,625	72,445
Lease liabilities		424	-	-
Provisions and contingent liabilities	11	877	203	846
Total Liabilities		**156,514**	**42,126**	**75,771**
Equity				
Issued share capital	21	1,066	17	17
Share premium		94,911	35,994	35,994
Merger reserve	22	(20,626)	-	-
Retained (loss) / earnings		(4,572)	21,750	18,541
Total Equity		**70,780**	**57,761**	**54,553**
Total Equity and Liabilities		**227,294**	**99,887**	**130,323**

The notes on pages 18 to 46 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 18 September 2019. They were signed on its behalf by:

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Chris Dailey
Director

Registered number: 11911574

Unaudited Condensed Consolidated Statement of Cash Flow

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Cash flows from operating activities:			
Loss before taxation	(7,260)	(4,055)	(7,264)
Adjustments for:			
Depreciation of property, plant and equipment	53	17	59
Amortisation of intangible assets	70	2	49
Interest income on debt securities	(27)	-	(1)
Interest & fees received	(5,388)	(1,925)	(5,179)
Interest expense	2,472	1,463	3,503
Increase in provisions	524	71	105
Impairment of aged receivables & other commitments	20	15	182
Taxation paid	-	-	-
Operating cash flows before movements in working capital	(9,536)	(4,412)	(8,546)
Increase in loans and advances to customers	(54,863)	(33,770)	(83,201)
Increase in trade and other receivables	(1,062)	(591)	(1,292)
Increase / (decrease) in trade and other payables	11,448	(1,189)	1,886
Cash used in operations	(44,477)	(35,550)	(82,607)
Interest received from customers	5,054	1,713	4,450
Net cash used in operating activities	**(48,959)**	**(38,250)**	**(86,703)**
Cash flows from investing activities:			
Purchase of debt securities	(35,089)	-	(5,993)
Proceeds from sale and maturity of debt securities	21,068	-	1,000
Purchase of property, plant and equipment	(49)	(102)	(253)
Purchase of intangible assets	(137)	(376)	(669)
Net cash used in investing activities	**(14,207)**	**(478)**	**(5,915)**
Cash flows from financing activities:			
Issue of new shares	25,000	32,710	26,004
Issue of preference share capital	50	-	-
Increase in financial liabilities	67,257	43,630	79,926
Repayment of financial liabilities	-	(10,000)	(10,000)
Interest paid	(2,154)	(514)	(2,215)
Net cash from financing activities	**90,153**	**65,826**	**93,716**
Net increase in cash and cash equivalents	26,988	27,098	1,098
Cash and cash equivalents at start of the year	7,556	6,458	6,458
Cash and cash equivalents at end of the period	**34,544**	**33,556**	**7,556**

	Share capital £'000	Share premium account £'000	Retained (loss) / earnings £'000	Merger reserve £'000	Total £'000
Balance at 31 December 2017 (Audited)	**5**	**3,296**	**(4,765)**	**-**	**(1,464)**
Loss after taxation	-	-	(4,055)	-	(4,055)
Debt to equity conversion	6	(3,296)	30,571	-	27,281
New issue of shares – DFC Ltd	6	35,994	-	-	36,000
Balance at 30 June 2018 (Unaudited)	**17**	**35,994**	**21,751**	**-**	**57,761**
Loss after taxation	-	-	(3,211)	-	(3,211)
Other comprehensive income	-	-	1	-	1
Balance at 31 December 2018 (Audited)	**17**	**35,994**	**18,541**	**-**	**54,551**
Effect of change in accounting policy for IFRS16	-	-	16	-	16
Restated balance at 31 December 2018 (Unaudited)	**17**	**35,994**	**18,557**	**-**	**54,567**
Loss after taxation	-	-	(4,048)	(3,221)	(7,269)
Other comprehensive income	-	-	9	-	9
New issue of shares – DFC Ltd	7	24,993	-	-	25,000
Arising on consolidation	(24)	(60,987)	(18,557)	(17,405)	(96,973)
New issue of shares – DFCH Plc	1,066	94,911	(532)	-	95,445
Balance at 30 June 2019 (Unaudited)	**1,066**	**94,911**	**(4,571)**	**(20,626)**	**70,780**

The notes on pages 18 to 46 are an integral part of these financial statements.

Refer to note 21 for further details on equity movements during the periods.

1. Basis of preparation

1.1 General information

The condensed set of financial statements has been prepared for Distribution Finance Capital Holdings Plc (the “Company” or “DFCH Plc”) and its wholly owned subsidiary, Distribution Finance Capital Ltd (“DFC Ltd”) (together, the “Group”).

DFCH Plc is registered and incorporated in England and Wales whose company registration number is 11911574. The registered office is 12 Groveland Court, London, EC4M 9EH. The Company’s ordinary shares were listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange on 9 May 2019. The Company subscribed 106,641,926 ordinary shares in the initial public offering, at a consideration of 90p per share, giving a total market capitalisation of £96 million.

The principal activity of the Company is that of an investment holding company. The principal activity of the Group is the provision of niche commercial lending activities including short-term financing to dealers.

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates, and are rounded to the nearest thousand pounds, unless stated otherwise.

1.2 Basis of accounting

The condensed consolidated set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’ (‘IAS 34’), as adopted by the European Union and the Interim Financial Report has been prepared in accordance with the Disclosure and Transparency Rules (‘DTR’) of the Financial Conduct Authority.

The condensed set of financial statements included within this interim financial report for the six months ended 30 June 2019 should be read in conjunction with the annual audited financial statements of Distribution Finance Capital Ltd for the year ended 31 December 2018.

The annual financial statements of Distribution Finance Capital Limited are prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the European Union.

The statutory financial statements of DFC Ltd for the year ended 31 December 2018 have been reported on by the Company's auditors, Deloitte LLP, and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial information for the six months ended 30 June 2019 has been prepared using accounting policies consistent with IFRS. The interim information, together with the comparative information contained in this report for the year ended 31 December 2018, does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The financial information is unaudited but has been reviewed by the Company's auditor, Deloitte LLP, and their report appears on page 13 of this interim financial report.

Sale of DFC Limited and listing of DFCH PLC

On 8th May 2019 DFC Ltd was sold by the TruFin Group to DFCH Plc. On 9th May 2019, DFCH Plc gained admission to the Alternative Investment Market on the London Stock Exchange. During this transaction, shares that were held by the then controlling party of the Company, TruFin Group, were sold to external investors such that no individual shareholder held more than 50% of the shares in the Group. This transaction resulted in a change in ownership and control of DFC Ltd which is now a wholly owned subsidiary of the DFCH Plc. This change in control and ownership requires the Group to assess how to account for the transactions in accordance with applicable IFRS accounting standards.

The first part of the transaction was the sale of DFC Ltd from the TruFin Group so that DFC Ltd became a wholly owned subsidiary of the DFCH Plc. In exchange for the shares held by the TruFin Group, they were given shares in DFCH Plc which resulted in TruFin becoming the controlling party in the Company. Resultantly, this transaction has been deemed a combination of businesses under common control given TruFin can be identified as both the acquiree and acquirer in this transaction, therefore, TruFin did not relinquish control during this transaction. Given that control is not transitory in this transaction, IFRS 3 cannot be applied as it does not meet

the definition of a combination of businesses. In such scenarios where IFRS 3 cannot be applied, the Group will consider other applicable accounting standards to assist with the treatment of the combination.

The second part of the transaction constituted the admission of the Company's shares on the Alternative Investment Market (AIM) of the London Stock Exchange on 9 May 2019. A key component and objective of the initial public offering was for the controlling party to reduce their shareholding below 50% so no party had a controlling interest in the Company. Although this transaction clearly indicates a loss of control by TruFin, the principal activity of DFCH Plc is that of an investment holding company given its primary activity is the ownership of a single subsidiary, DFC Ltd. This is not deemed sufficient to be considered a 'business' under IFRS given the Company does not offer any value or return to the Group. Therefore, IFRS 3 Business Combinations cannot be applied because the Company does not meet the definition of a business so cannot be deemed a combination of businesses.

In the absence of applicable IFRS accounting standards to follow, the Group has assessed the applicability of other relevant standards to adopt. Given that the underlying management and operating activities of the Group remain unchanged from the transaction, the Directors have taken this into consideration and elected to adopt "Merger Accounting", defined in FRS 102, using the book value accounting method in order to prepare the consolidated financial statements of the Group.

The principles of merger accounting are as follows:

- Assets and liabilities of the acquired entity are stated at predecessor carrying values. Fair value measurement is not required.
- No new goodwill arises in merger accounting.
- Any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity at the date of transaction is included in equity in retained earnings or in a separate "Merger Reserve" account.

By way of using the merger accounting methodology for preparing these consolidated interim financial statements, comparative information will be prepared as if the Group had existed and been formed in prior periods. The Directors agree this will enable informative comparatives to users given the underlying activities and management structure of the Group remain largely unchanged following the IPO. Therefore, these condensed financial statements have been prepared in accordance with the presentation and accounting standards applied within the audited financial statements of Distribution Finance Capital Ltd for the year ended 31 December 2018. These condensed financial statements should be read in conjunction with the audited financial statements of Distribution Finance Capital Ltd for the year ended 31 December 2018.

The financial statements have been prepared in accordance with European Union Endorsed International Financial Reporting Standards (IFRSs) and the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations. The condensed set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting' ('IAS 34').

The financial statements have been prepared on a going concern basis and under the historical cost convention except for the treatment of certain financial instruments.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. The consolidated financial statements contained in this document consolidate the statements of total comprehensive income, statements of financial position, cash flow statements, statements of changes in equity and related notes for Distribution Finance Capital Holdings Plc and Distribution Finance Capital Ltd, which together form the "Group", which have been prepared in accordance with applicable IFRS accounting standards.

1.3 Principal accounting policies

The principal accounting policies adopted in the preparation of this financial information are set out below. These policies have been applied consistently to all the financial periods presented.

1.4 Going concern

Following the £25 million cash injection from TruFin prior to the initial public offering and the subsequent successful listing on the AIM market, the Directors have assessed the Group's ability to continue in operational existence for at least 12 months from the reporting date.

The Directors have a reasonable expectation that the Group has adequate resources to meet its obligations for at least 12 months from the balance sheet date. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.5 Critical accounting estimates and judgements
In accordance with IFRS accounting standards, the Directors of the Group are required to make judgements, estimates and assumptions in certain subjective areas whilst preparing these financial statements. The application of these accounting policies may impact the reported amounts of assets, liabilities, income and expenses and actual results may differ from these estimates.

Any estimates and underlying assumptions used within the statutory financial statements are reviewed on an ongoing basis, with revisions recognised in the period in which they are adjusted, and any future periods affected.

Further details can be found in note 3 of these financial statements on the critical accounting estimates and judgements used within these financial statements.

1.6 Foreign currencies

The financial statements are expressed in Pounds Sterling, which is the functional and presentational currency of the Group.

Transactions in foreign currencies are translated to the Group's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the statement of income.

2. Summary of significant accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated set of financial statements as applied in the DFC Ltd.'s latest annual audited financial statements for the year ended 31 December 2018, with the exception of Merger Reserve, Earnings Per Share, Segmental Reporting and Leasing accounting policies. Furthermore, any adoption of new and amended standards are also set out below.

The preparation of interim condensed consolidated financial statements in compliance with IAS 34 requires the use of certain critical accounting judgements and key sources of estimation uncertainty. It also requires the exercise of judgement in applying the Group's accounting policies. There have been no material revisions to the nature and the assumptions used in estimating amounts reported in the annual audited financial statements of DFC Ltd. for the year ended 31 December 2018.

2.1 Merger Reserve

As detailed in section 1.2 of the notes to these financial statements, following the initial public offering of DFCH Plc, the Company is now the ultimate controlling party of the Group. The Board of Directors elected to account for the transaction using merger accounting which prescribes that any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity at the date of transaction is included in equity in retained earnings or in a separate reserve account. Therefore, on consolidation of the Group financial statements, the difference between the consideration paid (proceeds from the initial public offering) and the book value of Distribution Finance Capital Ltd is recognised as a Merger Reserve, in accordance with relevant accounting standards relating to businesses under common control.

2.2 Earnings per share

In accordance with IAS 33, the Group will present on the face of the consolidated statement of comprehensive income basic and diluted EPS for:

- Profit or loss from continuing operations attributable to the ordinary equity holders of Distribution Finance Capital Holdings Plc; and
- Profit or loss attributable to the ordinary equity holders of Distribution Finance Capital Holdings Plc for the period for each class of ordinary shares that has a different right to share in profit for the period.

Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential ordinary shares.

Adjusted basic earnings per share is calculated using the basic loss per share calculation above after allowing for adjusted items such as expenses including taxes, minority interests and preference dividends. The number of shares is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor. Contingently issuable shares are included in the basic EPS denominator when the contingency has been met.

Adjusted diluted earnings per share is calculated after adjusting the weighted average number of shares used in the adjusted basic earnings per share calculation to assume the conversion of all potentially dilutive shares. There are no adjustments to account for in any of the periods presented and therefore the adjusted earnings per share is determined to be the same as the basic and diluted earnings per share.

2.3 Segmental Reporting

IFRS 8 Operating segments requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on the Group's internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

The Group's product offering and the markets to which they are offered are so similar in nature that they are reported as one class of business. All customers are currently UK-based only. As a result, the chief operating decision maker uses only one segment to control resources and assess the performance of the entity, while deciding the strategic direction of the Group.

However, in accordance with IFRS 8, the Group will continue to monitor its activities to ensure any further reportable segments are identified and the appropriate reporting and disclosures are made.

2.4 Leasing

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 supersedes the approach of IAS 17 *Leases* and the related interpretations and is mandatory effective to accounting periods beginning on or after 1 January 2019. The Group has adopted IFRS 16 for the six month period ending 30 June 2019. At the period ending 30 June 2019, the Group only has property leases which meet the classification requirements of IFRS 16.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer for which these are deemed as right-of-use assets. The lessee is required to recognise a right-of-use asset representing the Group right of use and control over the leased asset. Furthermore, the Group is required to recognise a lease liability representing its obligation to make lease payments over the relevant term of the lease.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst other variables. Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

The Group has elected not to retrospectively restate prior period comparatives given the Directors deem the impact of the new accounting standard to be immaterial. As such, the Directors have elected to follow the 'modified retrospective approach' whereby the Group does not restate prior period comparatives and instead recognises an adjustment in equity to the opening reserves balance at 1 January 2019.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The judgements and estimates that have a significant effect on the amounts recognised in the historical financial information noted below.

3.1 Critical accounting judgements

The Board Audit Committee assessed and reviewed the critical accounting judgement in respect of the recognition of transferred assets and equity raising transaction cost.

Loan derecognition

In December 2017 DFC Ltd sold the majority of its loan assets to DFC Funding No1 Limited. As part of this transaction DFC Funding No1 entered into a two year senior debt facility to December 2019 with an external funder, secured on this floating pool of underlying assets sold by the Group. This facility was subsequently extended to December 2020. On the basis that the Group retains substantially all the risks and rewards of ownership of these transferred financial assets, the Group has continued to recognise the financial assets and also recognised a collateralised borrowing for the proceeds received.

Transaction costs directly incremental to equity raising

In May 2019 the Group executed a complex transaction, as detailed in section 1.2 of these financial statements, which included a £25 million equity injection from the TruFin Group and subsequent listing on the AIM stock market. Throughout the transaction, the Group engaged with a number of external professional services companies which in some cases provided advisory services throughout the transaction. Resultantly, the Group incurred a material amount of costs associated with the overall transaction.

Complexity arises given that IAS 32 provides prescriptive guidance that transaction costs which are incremental and directly attributable to the issuance of new equity instruments can be deducted from equity rather than recognised as an expense in the profit or loss. This presents difficulty because the activities of the £25 million equity injection by TruFin were strictly conditional on the sale of DFC Ltd to DFCH Plc and successful IPO of DFCH Plc. Although the majority of the costs were incurred due to the sale of DFC Ltd and IPO, these were not necessarily equity raising as no consideration was generated from these transactions alone. However, due to the interdependencies of the £25 million equity injection to these events, a portion of the costs can be allocated to the raising of equity and resultantly be deducted from equity. This requires a degree of subjectivity given some of the transaction costs are grouped and cover various activities so at times a subjective apportionment is followed so that only those transaction costs are accounted for through equity reserves with the remainder through the profit or loss.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Loan impairment

- Where an asset has a maturity of 12 months or less, the “12 month ECL” and the “lifetime ECL” have the same effective meaning and accordingly for such assets the calculated loss allowance will be the same whether such an asset is at Stage 1 or Stage 2. Given the preponderance of short term lending, the Group’s combined loss allowance is not materially affected by the allocation of assets between Stages 1 and 2, nor by any significant subjectivity in the forward-looking estimates that are applied.

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon and is a key input to the ECL calculation. The Group uses credit scores from credit reference agencies to calculate the PD for loans and advances to customers. The score is a 12-month predictor of credit failure and, in the absence of internally generated loss history, the Group believes that it provides the best proxy for the credit quality of the loan portfolio.
- Exposure at default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- Loss given default ("LGD") is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, in particular taking into account wholesale collateral values and certain buy back options.

The Group has considered the key areas of estimation used within the IFRS 9 impairment calculation and identified the variables which propose a material risk in terms of the preparation of the financial statements. The only variable considered to present a material risk of estimation uncertainty is the collateral values which are used within the loss given default (LGD) calculation. The Group has assessed that if the loss given default increased by a factor of 4, this would generate an additional provision of approximately £750,000 at 30 June 2019.

4. Interest and similar income

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
On loans and advances to customers	5,172	1,761	4,799
On loans and advances to banks	32	2	29
On employee loan agreements	4	-	-
	5,208	**1,763**	**4,828**

5. Operating segments

IFRS 8 Operating segments requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on DFC's internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

It is the Director's view that DFC's products and the markets to which they are offered are so similar in nature that they are reported as one class of business. All customers are currently UK-based only. As a result, it is considered that the chief operating decision maker uses only one segment to control resources and assess the performance of the entity, while deciding the strategic direction of DFC.

6. Interest and similar expense

	6 months ended 30 Jun 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Interest paid to related parties	359	774	1,026
Wholesale funding interest	2,662	781	2,145
Preference shares	(207)	166	332
	2,814	**1,721**	**3,503**

As detailed in note 23, during the six month period ending 30 June 2019, £3.5 million of preference shares plus accrued interest were converted in to loan agreements. The interest expense accrued on the preference shares was calculated under an effective interest rate (EIR) method. Whereas, the calculation of the interest accrued for the conversion to debt was calculated on a straight line basis which resulted in a write back in interest expense during the period.

7. Fee income

	6 months ended 30 Jun 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Facility-related fees	180	162	351
	180	**162**	**351**

8. Staff costs

Analysis of staff costs:

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Wages and salaries	4,524	2,010	4,578
Consulting costs	20	442	622
Social security costs	809	215	515
Pension costs arising on defined contribution schemes	114	50	136
	5,467	**2,717**	**5,851**

Consulting costs are recognised within personnel costs where the work performed would otherwise have been performed by employees. Consulting costs arising from the performance of other services is included within other operating expenses.

9. Other operating expenses

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
IT related expenses	468	177	463
Property leasing costs	173	112	340
Audit & consulting fees	131	118	229
Management fees	26	32	69
Legal and compliance fees	88	74	98
VAT related expenses	132	302	468
Sundry expenses	522	525	1,028
	1,540	**1,340**	**2,695**

10. Exceptional expenses

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Sale and IPO costs	2,187	-	-
	2,187	**-**	**-**

The Directors consider these items to be exceptional in nature as they are directly attributable to the sale of DFC Ltd and initial public offering transaction as outlined in note 1 of these financial statements. The Group will not incur costs of this nature in the foreseeable future and given the materiality of these costs the Directors wish to highlight these within the financial statements.

11. Provision for commitments and other liabilities

Analysis for movements in provision for commitments and other liabilities:

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
At period opening date	**846**	**105**	**105**
Share schemes tax liability	31	-	737
Customer billing adjustment	-	-	4
Onerous lease provision	-	98	-
At period closing date	**877**	**203**	**846**

12. Net impairment loss on financial assets

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
At period opening date	**180**	**64**	**64**
Charge for impairment losses	513	85	116
Amounts written off in the year	-	-	-
Amounts recovered in the year	-	-	-
At period closing date	**693**	**149**	**180**

13. Loss before income tax

Loss before income tax is stated after charging:

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Depreciation of property, plant and equipment	53	17	59
Amortisation of intangible assets	70	2	49
Staff costs	5,467	2,717	5,851
Operating lease rentals	115	195	278

14. Taxation

Analysis of tax charge recognised in the period:

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Current tax charge/ (credit)	-	-	-
Deferred tax (credit)/ charge	-	-	-
Total tax (credit)/ charge	**-**	**-**	**-**

15. Property, plant and equipment

	Leasehold Improvements £'000	Furniture, Fixtures & Fittings £'000	Computer Hardware £'000	Telephony & Communications £'000	Total £'000
Cost					
At 1 January 2018 (Audited)	**-**	**11**	**32**	**4**	**47**
Additions	-	10	91	1	102
Disposal	-	-	-	-	-
At 30 June 2018 (Unaudited)	**-**	**21**	**123**	**5**	**149**
Additions	23	83	43	1	150
Disposal	-	-	-	-	-
At 31 December 2018 (Audited)	**23**	**104**	**166**	**6**	**299**
Additions	3	10	36	-	49
Disposal	-	-	-	-	-
At 30 June 2019 (Unaudited)	**26**	**114**	**202**	**6**	**348**
Depreciation					
At 1 January 2018 (Audited)	-	(3)	(6)	(1)	(10)
Depreciation charge for the period	-	(3)	(12)	(1)	(16)
At 30 June 2018 (Unaudited)	**-**	**(6)**	**(18)**	**(2)**	**(26)**
Depreciation charge for the period	(3)	(12)	(27)	(1)	(43)
At 31 December 2018 (Audited)	**(3)**	**(18)**	**(45)**	**(3)**	**(69)**
Depreciation charge for the period	(4)	(18)	(30)	(1)	(53)
At 30 June 2019 (Unaudited)	**(7)**	**(36)**	**(75)**	**(4)**	**(122)**
Net Book Value					
At 1 January 2018 (Audited)	-	8	26	3	37
At June 2018 (Unaudited)	-	15	105	3	123
At 31 December 2018 (Audited)	20	86	121	3	230
At 30 June 2019 (Unaudited)	**20**	**78**	**127**	**2**	**226**

The Group holds no assets under finance leases.

16. Intangible assets

	Computer Software £'000
Cost	
At 1 January 2018 (Audited)	-
Additions from internal development	358
Additions from separate acquisitions	18
At 30 June 2018 (Unaudited)	376
Additions from internal development	216
Additions from separate acquisitions	77
At 31 December 2018 (Audited)	669
Additions from internal development	133
Additions from separate acquisitions	4
At 30 June 2019 (Unaudited)	**806**
Amortisation	
At 1 January 2018 (Audited)	-
Amortisation charge for the period	(3)
At 30 June 2018 (Unaudited)	(3)
Amortisation charge for the period	(46)
At 31 December 2018 (Audited)	(49)
Amortisation charge for the period	(70)
At 30 June 2019 (Unaudited)	**(119)**
Carrying amount	
At 1 January 2018 (Audited)	-
At 30 June 2018 (Unaudited)	374
At 31 December 2018 (Audited)	620
At 30 June 2019 (Unaudited)	**687**

In the six month period to 30 June 2019, the Group capitalised £93,000 (Dec18: £210,000) of consultancy costs and £40,000 (Dec18: £365,000) of employee costs in relation to the development of software platforms aimed at improving the commercial lending processes and development of retail customer deposits platform. The amortisation period for these software costs is within a range of 3-5 years following an individual assessment of the asset's expected life. The Group performed an impairment review at 31 December 2018 and concluded no impairment was required. The next impairment review will be conducted prior to the 31 December 2019 financial statements.

17. Assets classified as held for sale

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Opening balance	**266**	**-**	**-**
Initial recognition	3	-	257
Fair value adjustment	(35)	-	-
Transaction costs	13	-	9
Disposal proceeds	(225)	-	-
Closing balance	**22**	**-**	**266**

18. Loans and advances to customers

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Gross loan receivables	169,145	64,406	114,113
Less: allowances for impairment losses	(647)	(150)	(169)
Less: effective interest rate adjustment	(471)	(118)	(149)
Net loan receivables	**168,027**	**64,138**	**113,795**

Refer to note 25 for details on the expected maturity analysis of the gross loans receivable balance.

Refer to note 12 and 25 for further details on the impairment losses recognised in the periods.

Ageing analysis of gross loan receivables is as follows:

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Neither past due nor impaired	167,158	63,667	113,253
Past due: 0-30 days	1,148	728	645
Past due: 31-60 days	84	11	119
Past due 61-90 days	47	-	32
Past due: More than 91 days	41	-	14
Impaired	667	-	51
	169,145	**64,406**	**114,113**

19. Debt securities

During the six month period ending 30 June 2019 the Group has purchased UK Treasury Bills with a total nominal value of £35 million and received maturity proceeds of £21 million. The securities are valued at fair value through other comprehensive income ("FVTOCI") using closing bid prices at the reporting date.

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Opening balance	**4,993**	**-**	**-**
Purchased debt securities	35,089	-	5,993
Realised gain	18	-	-
Unrealised gain	9	-	1
Proceeds from maturing securities	(21,067)	-	(1,000)
Closing balance	**19,042**	**-**	**4,994**

Refer to note 25 for details of the maturity profile of these securities.

20. Trade and other receivables

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Trade receivables	398	116	79
Accrued Income	246	181	401
Other debtors	1,737	492	1,190
Prepayments	1,917	907	1,191
	4,298	**1,696**	**2,861**

Trade receivables above are stated net of a loss allowance of £46,000 (Dec 2018: £10,890). All receivables are due within one year, refer to note 25 for the expected maturity profile.

Unimpaired, past due trade receivables are analysed as follows:

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Not yet due	72	49	26
Past due: 0–30 days	86	7	11
Past due: 31–60 days	56	3	-
Past due: 61–90 days	42	6	5
Past due: More than 91 days	106	51	36
Impaired	36	-	-
	398	**116**	**79**

21. Equity

Analysis of the number of ordinary shares:

	A Class Ordinary Shares #	B Class Ordinary Shares #	C Class Ordinary Shares #	Total Ordinary Shares #
Balance at 1 January 2018 (Audited)	**5,000**	**-**	**-**	**5,000**
Debt to equity conversion	6,002	-	-	6,002
Issue of new shares	5,808	-	-	5,808
B class shares acquisition	-	430	-	430
Transfer of shares	(317)	-	317	-
Balance at 30 June 2018 (Unaudited)	**16,493**	**430**	**317**	**17,240**
Sub-division of A, B and C class shares by 1:1000 shares	16,476,507	429,570	316,683	**17,222,760**
Balance at 31 December 2018 (Audited)	**16,493,000**	**430,000**	**317,000**	**17,240,000**
Equity injection	6,530,303	-	-	6,530,303
Transfer of B and C Class shares into A Class shares	747,000	(430,000)	(317,000)	-
Arising on consolidation	(23,770,303)	-	-	(23,770,303)
Issuance of shares	106,641,926	-	-	106,641,926
Balance at 30 June 2019 (Unaudited)	**106,641,926**	**-**	**-**	**106,641,926**
At 30 June 2019 (Unaudited)				
Nominal value per share	1 pence	n.a	n.a	1 pence
Paid up share capital (£)	1,066,419	-	-	1,066,419
Unpaid share capital (£)	-	-	-	-

22. Merger reserve

As detailed in note 1 of these financial statements, the Group has elected to account for the change in ownership of DFC Ltd through merger accounting under FRS 102. Alongside this approach the Group is presenting the financial results using the retrospective methodology which shows the Group results as if the Group had been formed in prior periods. The Directors decided on this approach given the underlying business activities and operations of the Group remain largely unchanged following the change in ownership so still provide useful comparatives.

By following this approach, the difference in the purchase price of DFC Ltd and net assets of DFC Ltd at acquisition is not recognised as goodwill but rather as an equity reserve adjustment, which has been titled ‘merger reserve’. The purchase price of DFC Ltd equates to the proceeds from the AIM listing of DFCH Plc.

Furthermore, given the Group is following the retrospective methodology, the Directors have elected to present the income statement as if the Group had always existed, therefore, presenting an income statement for the full six month period. In terms of the accounting for the retained earnings within the six month period, the losses incurred up to the acquisition date are accounted for under the merger reserve and the losses incurred after the acquisition date through the retained earnings account.

Analysis of the merger reserve account:

	£000
Proceeds raised from listing	95,978
Net assets of DFC Ltd at acquisition date	(75,352)
Merger reserve	**20,626**

23. Financial liabilities

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Loans with related parties	19,520	10,041	10,293
Wholesale funding	121,465	23,638	59,041
Preference Shares	50	2,945	3,111
	141,035	**36,625**	**72,445**

Prior to the IPO of DFCH Plc, DFC received an additional £5 million in loan agreements from the TruFin Group and also converted £3.5 million of preference shares plus accrued interest into loan agreements. At 30 June 2019 the Group has an outstanding loan agreement with TruFin Holdings of £18.9 million with accrued interest at the reporting date of £652,000. This loan has principal repayments due of £5 million in December 2019, £5 million in June 2020 and final repayment of the remaining balance in December 2020.

In April 2019 the Group increased its wholesale funding facility from £100 million to £155 million and extended the term by 12 months such that the funding line now has a maturity of December 2020. In June 2019 alongside the existing wholesale funding facility, the Group partnered with an external reputable lender to provide a £40.3 million revolving mezzanine funding facility. At 30 June 2019 the drawn component of these funding facilities was £121.1 million with an additional £282,000 in accrued interest.

As part of the setup of the new Company, Distribution Finance Capital Holdings Plc, in April 2019 a sole member decision was granted authorising the allocation of 50,000 non-voting paid up redeemable preference shares of £1.00 each.

The maturity profile of the financial liabilities are as follows:

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Loans due within one year	10,282	10,085	69,910
Loans due in over a year	130,703	23,595	-
Preference shares	50	2,945	2,536
	141,035	**36,625**	**72,445**

24. Trade and other payables

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Accruals	2,190	611	580
Other payables	10,795	4,225	970
Payroll and other taxes	248	191	213
Trade payables	554	234	524
VAT	391	37	193
	14,178	**5,298**	**2,479**

25. Financial instruments

The Directors have performed an assessment of the risks affecting the Group through its use of financial instruments and believe the principal risks to be: capital risk; credit risk; and market risk, including interest rate risk.

This note describes the Group's objectives, policies and processes for managing the material risks and the methods used to measure them. The significant accounting policies regarding financial instruments are disclosed in note 2.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while providing an adequate return to shareholders.

The capital structure of the Group consists of net debt (borrowings disclosed in note 23) and equity (comprising issued capital, share premium and retained earnings – see note 21).

The Group is not subject to any externally imposed capital requirements.

Principal financial instruments

The principal financial instruments to which the Group is party, and from which financial instrument risk arises, are as follows:

- Loans and advances to customers, primarily credit risk, and liquidity risk;
- Debt securities, source of credit risk, liquidity risk and interest rate risk;
- Trade receivables, primarily credit risk, and liquidity risk;
- Cash and cash equivalents, which can be a source of credit risk but are primarily liquid assets available to further business objectives or to settle liabilities as necessary;
- Trade and other payables;
- Borrowings, which are used as sources of funds and to manage liquidity risk.

Summary of financial assets and liabilities:

Below is a summary of the financial assets and liabilities held on the Group's statement of financial position at the reporting dates. These values are reflected at their carrying amounts at the respective reporting date:

30 June 2019 (Unaudited) Assets (£000s)	**Loans held at amortised cost**	**Fair value through Other Comprehensive Income (FVTOCI)**	**Liabilities at amortised cost**	**Total**
Cash and cash equivalents	34,544	-	-	34,544
Loans and advances to customers	168,027	-	-	168,027
Debt securities	-	19,042	-	19,042
Trade receivables	398	-	-	398
Total financial assets	**202,969**	**19,042**	**-**	**222,011**
Non-financial assets	-	-	-	5,283
Total assets	**202,969**	**19,042**	**-**	**227,294**
30 June 2019 (Unaudited) Liabilities (£000s)				
Preference shares	-	-	50	50
Other financial liabilities	-	-	140,985	140,985
Trade payables	-	-	554	554
Total financial liabilities	**-**	**-**	**141,589**	**141,589**
Non-financial liabilities	-	-	-	14,926
Total liabilities	**-**	**-**	**141,589**	**156,515**

31 December 2018 (Audited) Assets (£000s)	**Loans held at amortised cost**	**Fair value through Other Comprehensive Income (FVTOCI)**	**Liabilities at amortised cost**	**Total**
Cash and cash equivalents	7,556	-	-	7,556
Loans and advances to customers	113,795	-	-	113,795
Debt securities	-	4,994	-	4,994
Trade receivables	79	-	-	79
Total financial assets	**121,430**	**4,994**	**-**	**126,423**
Non-financial assets	-	-	-	3,900
Total assets	**121,430**	**4,994**	**-**	**130,323**
31 December 2018 (Audited) Liabilities (£000s)				
Preference shares	-	-	3,111	3,111
Other financial liabilities	-	-	69,334	69,334
Trade payables	-	-	524	524
Total financial liabilities	**-**	**-**	**72,969**	**72,969**
Non-financial liabilities	-	-	-	2,802
Total liabilities	**-**	**-**	**72,969**	**75,771**

Analysis of financial instruments by valuation model

The Group measures fair values using the following hierarchy of methods:

- Level 1 – Quoted market price in an active market for an identical instrument
- Level 2 – Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for similar instruments that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial assets and liabilities that are not measured at fair value:

30 June 2019 (Unaudited)	**Carrying amount £'000**	**Fair value £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial assets not measured at fair value					
Loans and advances to customers	168,027	168,027	-	-	168,027
Trade receivables	398	398	-	-	398
Cash and cash equivalents	34,544	34,544	34,544	-	-
	202,969	**202,969**	**34,544**	**-**	**168,425**
Financial liabilities not measured at fair value					
Preference shares	50	50	-	-	50
Other financial liabilities	140,985	140,985	-	-	140,985
Trade payables	554	554	-	-	554
	141,589	**141,589**	**-**	**-**	**141,589**

31 December 2018 (Audited)	**Carrying amount £'000**	**Fair value £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial assets not measured at fair value					
Loans and advances to customers	113,795	113,795	-	-	113,795
Trade receivables	79	79	-	-	79
Cash and cash equivalents	7,556	7,556	7,556	-	-
	121,430	**121,430**	**7,556**	**-**	**113,874**
Financial liabilities not measured at fair value					
Preference shares	3,111	3,111	-	-	3,111
Other financial liabilities	69,334	69,334	-	-	69,334
Trade payables	524	524	-	-	524
	72,969	**72,969**	**-**	**-**	**72,969**

Fair values for level 3 assets were calculated using a discounted cash flow model and the Directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost are approximate to their fair values.

Loans and advances to customers

Due to the short-term nature of loans and advances to customers, their carrying value is considered to be approximately equal to their fair value. These items are short term in nature such that the impact of the choice of discount rate would not make a material difference to the calculations.

Trade and other receivables, other borrowings and other liabilities

These represent short-term receivables and payables and as such their carrying value is considered to be equal to their fair value.

There are no financial liabilities included in the statement of financial position that are measured at fair value.

Financial assets and liabilities included in the statement of financial position that are measured at fair value:

30 June 2019 (Unaudited)	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial assets measured at fair value			
Debt securities	19,042	-	-
	19,042	**-**	**-**

Debt securities

The debt securities carried at fair value by the Company are treasury bills. Treasury bills are traded in active markets and fair values are based on quoted market prices.

There were no transfers between levels during the periods, all debt securities have been measured at level 1 from acquisition.

Financial risk management

The Group's activities and the existence of the above financial instruments expose it to a variety of financial risks.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk

Further details regarding these policies are set out below.

Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. One of the Group's main income generating activities is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit risk management

The Group's credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control;
- Identifying, assessing and measuring credit risks across the Group from an individual instrument to a portfolio level;
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits;
- Limiting concentrations of exposure by type of asset, counterparty, industry, credit rating, geography location;
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities;
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk default. Risk grades are subject to regular reviews; and
- Developing and maintaining the Group's processes for measuring Expected Credit Loss (ECL) including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.

Significant increase in credit risk

The Group continuously monitors all assets subject to Expected Credit Loss as to whether there has been a significant increase in credit risk since initial recognition, either through a significant increase in Probability of Default ("PD") or in Loss Given Default ("LGD").

The following is based on the procedures adopted by the Group:

Granting of credit
The Business Development Team prepare a Credit Application which sets out the rationale and the pricing for the proposed loan facility, and confirms that it meets the Group's product, manufacturer programme and pricing policies. The Application will include the proposed counterparty's latest financial information and any other relevant information but as a minimum:

- Details of the limit requirement e.g. product, amount, tenor, repayment plan etc,
- Facility purpose or reason for increase,
- Counterparty details, background, management, financials and ratios (actuals and forecast),
- Key risks and mitigants for the application,
- Conditions, covenants & information (and monitoring proposals) and security (including comments on valuation),
- Pricing,
- Confirmation that the proposed exposure falls within risk appetite,
- Clear indication where the application falls outside of risk appetite.

The Credit Risk Department will analyse the financial information, obtain reports from a credit reference agency, allocate a risk rating, and make a decision on the application. The process may require further dialogue with the Business Development Team to ascertain additional information or clarification.

Each mandate holder and Committee is authorised to approve loans up to agreed financial limits and provided that the risk rating of the counterparty is within agreed parameters. If the financial limit requested is higher than the credit authority of the first reviewer of the loan facility request, the application is sent to the next credit authority level with a recommendation.

The Executive Risk Committee reviews all applications that are outside the credit approval mandate of the mandate holder due to the financial limit requested or if the risk rating is outside of policy but there is a rationale and/or mitigation for considering the loan on an exceptional basis.

Applications where the counterparty has a high-risk rating of 6 are sent to the Executive Risk Committee for a decision based on a positive recommendation from Credit Risk department. Where a limited company has such a risk rating, the Executive Risk Committee will consider the following mitigating factors:

- Existing counterparty which has met all obligations in time and in accordance with loan agreements,
- Counterparty known to credit personnel who can confirm positive experience,
- Additional security, either tangible or personal guarantees where there is verifiable evidence of personal net worth,
- A commercial rationale for approving the application, although this mitigant will generally be in addition to at least one of the other mitigants.

Identifying significant increases in credit risk
The short tenor of the current loan facilities reduces the possible adverse effect of changes in economic conditions and/or the credit risk profile of the counterparty.

The Group nonetheless measures a change in a counterparty's credit risk mainly on payment performance and end of contract repayment behaviour. The regular collateral audit process and interim reviews may highlight other changes in a counterparty's risk profile, such as the security asset no longer being under the control of the borrower. The Group views a significant increase in credit risk as:

- A two-notch reduction in the Company's counterparty's risk rating, as notified through the credit rating agency alert system.
- A counterparty defaults on a payment due under a loan agreement.
- Late contractual payments which although cured, re-occur on a regular basis.
- Counterparty confirmation that it has sold DFC financed assets but delays in processing payments.
- Evidence of a reduction in a counterparty's working capital facilities which has had an adverse effect on its liquidity.
- Evidence of actual or attempted sales out of trust or of double financing, of assets funded by the Group.

An increase in significant credit risk is identified when any of the above events happen after the date of initial recognition.

Identifying loans and advances in default and credit impaired
The Group's definition of default for this purpose is:

- A counterparty defaults on a payment due under a loan agreement and that payment is more than 30 days overdue; or
- The collateral that secures, all or in part, the loan agreement has been sold or is otherwise not available for sale and the proceeds have not been paid to the lending company; or
- A counterparty commits an event of default under the terms and conditions of the loan agreement which leads the lending company to believe that the borrower's ability to meet its credit obligations to the lending company is in doubt.

The short tenor of the loans extended by the Group means that significant economic events are unlikely to influence counterparties' ability to meet their obligations to the Group.

Exposure at default (EAD)
Exposure at default ("EAD") is the expected loan balance at the point of default and, for the purpose of calculating the ECL, management have assumed this to be the balance at the reporting date.

Expected Credit Losses (ECL)
The ECL on an individual loan is based on the credit losses expected to arise over the life of the loan, being defined as the difference between all the contractual cash flows that are due to the Group and the cash flows that it actually expects to receive.

This difference is then discounted at the original effective interest rate on the loan to reflect the disposal period of such assets underlying the original contract.

Regardless of the loan status stage, the aggregated ECL is the value that the Group expects to lose on its current loan book having assessed each loan individually.

To calculate the ECL on a loan, the Group considers:

1. Counterparty PD; and
2. LGD on the asset

whereby: ECL = EAD x PD x LGD

Forward looking information
In its ECL models, the Group applies the following sensitivity analysis of forward-looking economic inputs:

- GDP growth
- LIBOR
- Retail Price Index (“RPI”)

However, in making its assessment of the impact of these key forward looking economic assumptions, the Group has placed reliance on the short-dated nature of its loans which do not extend beyond 12 months. Given the current loan book has an average tenor of 4 months, the forward looking economic inputs above do not affect the ECL significantly.

Maximum exposure to credit risk

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Cash and cash equivalents	34,544	33,556	7,556
Loans and advances to customers	168,027	64,138	113,795
Trade receivables	398	116	79
	202,969	**97,810**	**121,430**

Collateral held as security

Fully collateralised	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Loan-to-value* ratio:			
Less than 50%	3,172	1,357	2,129
51% to 70%	14,583	4,942	5,969
71% to 80%	37,435	15,752	35,946
81% to 90%	35,741	12,157	30,026
91% to 100%	77,398	30,149	39,937
	168,329	**64,357**	**114,007**
Partially collateralised			
Collateral value relating to loans over 100% loan-to-value	**-**	**22**	**-**
Unsecured lending	**816**	**27**	**106**

* Calculated using wholesale collateral values. Wholesale collateral values represent the invoice total (including applicable VAT) from the invoice received from the supplier of the product. The wholesale amount is typically expected to be less than the recommended retail price (RRP) of the product.

The Group’s lending activities are asset based so it expects that the majority of its exposure is secured by the collateral value of the asset that has been funded under the loan agreement. The Group has title to the collateral which is funded under loan agreements. The collateral comprises boats, motorcycles, recreational vehicles, caravans and industrial and agricultural equipment. The collateral has low depreciation and is not subject to rapid technological changes or redundancy. There has been no change in the Group’s assessment of collateral and its underlying value in the reporting period.

The assets are generally in the counterparty's possession, but this is controlled and managed by the asset audit process. The audit process checks on a periodic basis that the asset is in the counterparty's possession and has not been sold out of trust or is otherwise not in the counterparty's control. The frequency of the audits is determined by the risk rating assessed at the time that the borrowing facility is first approved.

Additional security may also be taken to further secure the counterparty's obligations and further mitigate risk. Further to this, in many cases, the Group is often granted, by the counterparty, an option to sell-back the underlying collateral.

Based on the Group's current principle products, the counterparty repays its obligation under a loan agreement with the Group at or before the point that it sells the asset. If the asset is not sold and the loan agreement reaches maturity, the counterparty is required to pay the amount due under the loan agreement plus any other amounts due. In the event that the counterparty does not pay on the due date, the Group's customer management process will maintain frequent contact with the counterparty to establish the reason for the delay and agree a timescale for payment. Senior Management will review actions on a regular basis to ensure that the Group's position is not being prejudiced by delays.

In the event DFC determines that payment will not be made voluntarily, it will enforce the terms of its loan agreement and recover the asset, initiating legal proceedings for delivery, if necessary. If there is a shortfall between the net sales proceeds from the sale of the asset and the counterparty's obligations under the loan agreement, the shortfall is payable by the counterparty on demand.

Concentration of credit risk

The Group maintains policies and procedures to manage concentrations of credit at the counterparty level and industry level to achieve a diversified loan portfolio.

Credit quality

An analysis of the Group's credit risk exposure for loan and advances per class of financial asset, internal rating and "stage" is provided in the following tables. A description of the meanings of Stages 1, 2 and 3 was given in the accounting policies set out above.

30 June 2019 (Unaudited) **Credit rating**	**Stage 1** **£'000**	**Stage 2** **£'000**	**Stage 3** **£'000**	**30 June 2019 Total** **£'000**
Above average (Risk rating 1-2)	90,423	-	-	90,423
Average (Risk rating 3-5)	37,345	19,455	-	56,800
Below average (Risk rating 6+)	13,968	7,189	765	21,922
Gross carrying amount	**141,736**	**26,644**	**765**	**169,145**
Loss allowance	(154)	(38)	(455)	(647)
Carrying amount	**141,582**	**26,606**	**310**	**168,498**

31 December 2018 (Audited) **Credit rating**	**Stage 1** **£'000**	**Stage 2** **£'000**	**Stage 3** **£'000**	**31 December 2018 Total** **£'000**
Above average (Risk rating 1-2)	54,987	-	-	54,987
Average (Risk rating 3-5)	28,998	14,915	-	43,913
Below average (Risk rating 6+)	7,374	7,705	134	15,213
Gross carrying amount	**91,359**	**22,620**	**134**	**114,113**
Loss allowance	(88)	(32)	(49)	(169)
Carrying amount	**91,271**	**22,588**	**85**	**113,944**

The below table shows the behavioural pattern of loans to customers in terms of the IFRS 9 staging:

Gross Carrying Amount	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
As at 31 December 2018 (Audited)	91,359	22,620	134	114,113
Transfer to stage 1	11,101	(11,101)	-	-
Transfer to stage 2	(8,342)	8,422	(80)	-
Transfer to stage 3	(228)	(681)	909	-
Loans originated	154,246	29,781	51	184,078
Loans repaid	(106,400)	(22,397)	(249)	(129,046)
As at 30 June 2019 (Unaudited)	**141,736**	**26,644**	**765**	**169,145**

Gross Carrying Amount	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
As at 31 December 2017 (Audited)	30,390	-	-	30,390
Transfer to stage 1	521	(521)		-
Transfer to stage 2	(26,577)	26,577		-
Transfer to stage 3	(128)	(286)	414	-
Loans originated	202,329	-	3	202,332
Loans repaid	(115,176)	(3,150)	(283)	(118,609)
As at 31 December 2018 (Audited)	**91,359**	**22,620**	**134**	**114,113**

*During the period ending 31 December 2018, £257,000 relating to assets which were repossessed from a customer in administration, as outlined in note 17, have been classified in the above table under stage 3 loan repaid.

Analysis of credit quality of trade receivables:

	30 June 2019 (Unaudited) £'000	**30 June 2018 (Unaudited) £'000**	**31 December 2018 (Audited) £'000**
Status at balance sheet date			
Not past due, nor impaired	160	49	26
Past due but not impaired	224	67	53
Impaired	60	-	11
Total gross carrying amount	**444**	**116**	**90**
Loss allowance	(46)	-	(11)
Carrying amount	**398**	**116**	**79**
Net trade receivables	**398**	**116**	**79**

The Group has assessed the trade receivables in accordance with IFRS 9 as follows:

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Gross receivable:			
Stage 1	355	116	65
Stage 2	29	-	1
Stage 3	60	-	23
	444	**116**	**90**
Loss allowance:			
Stage 1	(23)	-	-
Stage 2	-	-	-
Stage 3	(23)	-	(11)
	(46)	**-**	**(11)**
Carrying amount:			
Stage 1	333	116	65
Stage 2	29	-	1
Stage 3	36	-	12
	398	**116**	**79**

Amounts written off
The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £nil at 30 June 2019 (31 December 2018: £nil).

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all finance operations and can be affected by a range of Group-specific and market-wide events.

Liquidity risk management
The Group has in place a policy and control framework for managing liquidity risk. The Group's Asset and Liability Management Committee (ALCO) is responsible for managing the liquidity risk via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring. The ALCO meets on a monthly basis to review the liquidity position and risks. Daily liquidity reports are produced and reviewed by the management team to track liquidity and pipeline.

DFC Ltd is in the process of applying for a Bank Licence. One of the key requirements is to a have a comprehensive liquidity management process & documentation which is submitted to the Prudential Regulation Authority (PRA) for approval. These documents have been approved by the Board of Directors and submitted to the PRA.

Liquidity stress testing
The Group has assessed its liquidity adequacy and viability for the first 12 months of operations as a regulated bank, based on its 5-year business plan projections. Under this analysis, the Group is confident that it will be able to meet all of its liabilities as they fall due, even in a stress scenario.

A range of liquidity stress scenarios has been conducted (as detailed in the Internal Liquidity Adequacy Assessment Process "ILAAP" and Internal Capital Adequacy Assessment Process "ICAAP"), which demonstrates that the Group's liquidity profile at the end of this 12-month period will be sufficient to withstand a severe stress at this time.

Maturity analysis for financial assets

The following maturity analysis is based on **expected** gross cash flows:

30 June 2019 (Unaudited) Financial assets (£000s)	**Carrying amount**	**Gross nominal inflow**	**Less than 1 months**	**1 - 3 months**	**3 months to 1 year**	**1 - 5 years**	**>5 years**
Cash and cash equivalents	34,544	34,544	34,544	-	-	-	-
Loans and advances	168,027	169,145	42,286	55,501	66,000	5,358	-
Debt securities	19,042	19,050	14,000	5,050	-	-	-
Trade receivables	398	444	133	222	89	-	-
	222,011	**223,183**	**90,963**	**60,773**	**66,089**	**5,358**	**-**

Maturity analysis for financial liabilities

The following maturity analysis is based on **contractual** gross cash flows:

30 June 2019 (Unaudited) Financial liabilities (£000s)	**Carrying amount**	**Gross nominal outflow**	**Less than 1 months**	**1 - 3 months**	**3 months to 1 year**	**1 - 5 years**	**>5 years**
Preference shares	50	50	-	-	-	50	-
Other financial liabilities	140,985	153,362	611	1,978	15,684	135,089	-
Trade payables	554	554	554	-	-	-	-
	141,589	**153,966**	**1,165**	**1,978**	**15,684**	**135,139**	**-**
Loan commitments	**-**	**4,635**	**4,635**	**-**	**-**	**-**	**-**

Market risk
Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices will reduce the Group's income or the value of its assets.

The principal market risk to which the Group is exposed is interest rate risk.

Interest rate risk management
The Group is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates.

The Group's borrowings are at both fixed rates of interest and LIBOR based. These borrowings fund existing loans and advances to customers at fixed rate. To help mitigate interest rate risk the Group may increase asset pricing accordingly on new assets funded at its discretion. Additionally, the limited asset average loan duration helps mitigate this interest rate risk.
For interest rate sensitivity analysis, the Group considers a parallel 200 basis points ("bps") movement to be appropriate for scenario testing based on the current economic outlook and industry expectations.

The impact of changes in interest rates has been assessed in terms of economic value of equity (EVE) and profit or loss. Economic value of equity (EVE) is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. This is a long-term economic measure used to assess the degree of interest rate risk exposure.

The estimate that a 200bps upward and downward movement in interest rates would have impacted the economic value of equity (EVE) is as follows:

	30 June 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Change in interest rate (basis points)		
Sensitivity of profit +200bps	1,106	588
Sensitivity of profit -200bps	(415)	(221)

The estimate of the effect of the same two interest rate shocks applied on the next 12 months net interest income using a 200bps upward and 200bps downward movement in interest rates is as follows:

	30 June 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Change in interest rate (basis points)		
Sensitivity of EVE +200bps	(422)	(498)
Sensitivity of EVE -200bps	432	519

In preparing the sensitivity analyses above, the Group makes certain assumptions consistent with the expected and contractual re-pricing behaviour as well as behavioural repayment profiles under the two interest rate scenarios.

26. Leasing commitments

The Group only has operating leases in the form of leasing of property for office space. The lease agreements have a fixed term with a maximum lease term of 5 years. The leasing arrangements clearly specify the rental expense for the year which is fixed over the life of the lease. The service charge expense has been estimated over the life of the term and is not considered materially variable. Rent and service charge invoices are paid quarterly in advance. None of the leases have been granted an interest-free period. Should the Group wish to renew the lease in the future, this would require signing a new leasing agreement.

The Group did not engage in any subleasing or lease incentive arrangements in any of the reporting periods and there was no contingent rent payable for any of the reporting periods.

The Group as lessee:

	30 June 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Lease payments under operating leases recognised as an expense in the year	**115**	**278**

At the year-end dates the Group has lease agreements in respect of properties for which the payments extend over a number of years. The future minimum lease payments under non-cancellable leases are as follows:

	30 June 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Within one year	230	226
In the second to fifth years inclusive	330	489
After five years	-	-
Total future lease payments committed	**561**	**715**

27. Earnings per share

	6 months ended 30 June 2019 (Unaudited)	6 months ended 30 June 2018 (Unaudited)	Year ended 31 December 2018 (Audited)
Number of Shares	**#**	**#**	**#**
At period end	106,641,926	17,240	17,240,000
Basic and diluted - weighted average*	43,310,508	9,473,000	13,414,373
Earnings attributable to ordinary shareholders	**£'000**	**£'000**	**£'000**
Loss after tax attributable to the shareholders	(7,269)	(4,055)	(7,266)
Adjusted loss	(5,082)	(4,055)	(7,266)
Earnings per share	**pence**	**pence**	**pence**
Basic and diluted	(17)	(43)	(54)
Adjusted	(12)	(43)	(54)
Illustrative	(29)	(24)	(42)

**weighted average shares has been calculated on the assumption that the subdivision of shares is applied to all periods. See note 21 for further details.*

The number of shares for each period shown has been calculated based on a time-weighting approach. This takes into consideration that on the 9th May 2019, Distribution Finance Capital Limited effectively demerged from the TruFin Group at which time it had 17,240,000 ordinary class shares. Following the initial public offering, Distribution Finance Capital Holdings Plc, the ultimate controlling party of the Group, listed 106,641,926 ordinary shares on the Alternative Investment Market (AIM).

For illustrative purposes, the Directors have elected to show the earnings per share as if the transaction in May 2019, as detailed in note 1 of these financial statements, did not occur in order to provide a meaningful assessment of the Group's performance during the six month period to 30 June 2019.

28. Related party disclosures

Key management personnel disclosures are provided in note 8 of these financial statements.

Counterparty	Description of transaction	Amounts of transaction
TruFin	On 7th May 2019, TruFin Holdings Limited injected £25 million of equity in to Distribution Finance Capital Ltd prior to the demerger from the TruFin Group.	6,530,303 A class ordinary shares in Distribution Finance Capital Ltd were granted with a nominal value of £0.001 each at a total consideration of £25 million.
TruFin	Distribution Finance Capital Ltd held a management service agreement with TruFin Plc which included a management charge of £18,750 per quarter. This agreement was terminated on 7th May 2019.	During the six month period ending 30 June 2019, Distribution Finance Capital Ltd made payments of £26,400 (exc. VAT) to TruFin Plc in relation to management charges.
TruFin	As part of the transaction as outlined in note 1 of these financial statements, TruFin incurred significant costs in relation to the sale and subsequent IPO. It was agreed prior to the IPO that these costs were to be borne by the Group.	During the six month period ending 30 June 2019, the Group incurred charges of £700,000 (exc. VAT) to TruFin Plc in relation to the recharge of these transaction costs.
TruFin	As detailed in note 23, during the six month period ended 30 June 2019, Distribution Finance Capital Ltd consolidated and increased funding from TruFin Holdings.	In April 2019 Distribution Finance Capital Limited received funding from Trufin Holdings of £5 million and £3.8m of preference shares were redeemed and replaced by an equivalent loan from Trufin Holdings. This together with the existing £10 million loan increased the total loan with Trufin Holdings to £18.8 million.
TruFin	Interest expense recognised within the period in accordance with the signed loan agreements with the TruFin Group.	In the six month period ended 30 June 2019 the Group recorded interest expense in relation to the loan agreements held with TruFin of £359,000. At 30 June 2019, the Group had interest payable of £652,000.
Director	Directors share transactions	During the period ended 30 June 2019 Chris Dailey was awarded 84,121 A ordinary shares in DFC Ltd. Immediately prior to the admission of DFCH Plc to the Alternative Investment Market Chris Dailey held 433,121 A ordinary shares and 290,000 B ordinary shares in DFC Ltd these were exchanged for 3,220,701 ordinary shares in DFCH Plc. In addition Chris Dailey purchased 55,555 DFCH Plc ordinary shares upon placing. During the period ended 30 June 2019 Gavin Morris was awarded 5,266 A ordinary shares in DFC Ltd. Immediately prior to the admission of DFCH Plc to the Alternative Investment Market Gavin Morris held 5,266 A ordinary shares and 40,000 C ordinary shares in DFC Ltd these were exchanged for 201,609 ordinary shares in DFCH Plc. In addition Gavin Morris purchased 27,777 DFCH Plc shares upon placing. Henry Kenner and James van den Bergh received 1,484,947 and 1,391,737 ordinary shares in DFCH plc on Admission as a result of shares held in Trufin or awards in respect of such shares. In addition James van den Bergh purchased 555,555 DFCH Plc ordinary shares upon placing. On placing of DFCH plc John Baines and Carole Machell acquired 222,222 and 83,333 ordinary shares in DFCH plc respectively.
Director	Loan agreements held with Directors of the Group.	During the six-month period ended 30 June 2019 loans were provided to Chris Dailey and Gavin Morris to fund the tax liability arising as a result of their award of 84,121 and 5,266 A ordinary shares in DFC Ltd respectively. These loans in respect of Chris Dailey and Gavin Morris amounted to £228,085 and £14,278 respectively. Total loans due from Chris Dailey and Gavin Morris as at 30 June 2019 were £228,319 and £33,138 respectively.
Director	Issuance of redeemable non-voting preference shares.	On 5 April 2019, to meet the minimum share capital requirements for public companies the Company issued 50,000 redeemable non-voting preference shares of £1.00 each to James van den Bergh.

29. Post balance sheet events

On 26 July 2019, DFC had a meeting with the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") where it was agreed that DFC would re-submit the required information for its licence application following final checks. DFC subsequently resubmitted its Bank licence application on 8 August 2019 following Board approval.