



**Distribution Finance
Capital Holdings plc**

Interim Report 2023

For the six months ended 30 June 2023



DF Capital

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Carl D’Ammassa
Gavin Morris

Non-Executive Directors

Mark Stephens
Thomas Grathwohl
Haakon Stenrød
Nicole Coll
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Company Secretary

Karen D’Souza (appointed 16 February 2023)
Gavin Morris (interim: 29 November 2022 – 16 February 2023)

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DF Capital is a trading name of Distribution Finance Capital Holdings plc. Registered office: St James’ Building, 61-95 Oxford Street, Manchester, M1 6EJ. VAT GB 337 4014 21. Company No. 11911574 (Registered in England and Wales).

Distribution Finance Capital Holdings plc is referred to throughout this report in the following ways; ‘the Company’, ‘the Group’, ‘DF Capital’, ‘DFC’ and ‘DFCH plc’.

Strong growth in profitability; on-track to hit full year expectations

The Group is pleased to report on the progress made during the first half of 2023, delivering eight consecutive quarters of loan book growth and profit for the period in line with the Board's expectations. The Group has built on the momentum reported in 2022. Despite a macroeconomic environment that has proven increasingly challenging, with rising interest rates and a tightening of consumer demand across a number of sectors in which our customers operate, our products and services continue to resonate with our manufacturer and dealer customers, playing an important role in supporting their working capital needs.

During the period, we increased lending ahead of seasonal expectations and hit record loan balances of £519m as at 30 June 2023, whilst delivering net interest margin well above our 6% target. In addition, by gaining access to the British Business Bank ENABLE Guarantee, we have unlocked capacity to drive further organic growth without the need for additional Tier 1 capital which would have otherwise required us to raise further equity. These factors, alongside effective cost control and strong portfolio management have delivered a profit before tax in the first six months of 2023 of £3.2m, materially outpacing what was achieved through the entire twelve months of 2022 (FY22: £1.3m).

These results underpin the Board's belief that the strategy is effective as we can profitably scale the bank and move forward at pace on our journey to deliver a mid-to-high teens return on capital over the medium term.

Record loan origination; supporting more customers than ever before

The Group originated new loans of £607m during the six-month period to 30 June 2023, up 38% on the equivalent period in 2022 (H1 2022: £439m), increasing its reach across our chosen markets and now supporting 1,152 dealers (30 June 2022: 908 and 31 December 2022: 998). Aggregate dealer loan facilities at the end of the period totalled £926m, up 28% on the prior year (30 June 2022: £724m) and up 13% on the end of FY22 (31 December 2022: £817m).

The Group's loan book ended the period at £519m, up 69% on the equivalent period in the prior year (30 June 2022: £308m) and up 18% on the end of FY22 (31 December 2022: £439m). At this critical time for dealers and manufacturers, it is clear that our products and services continue to resonate. Our digitised approach to lending, coupled with the depth of relationship management are the foundation of our growth story.

The impact of high inflation and rising interest rates has been felt across a number of sectors, where discretionary spend has tightened, adversely impacting dealer sales. This dynamic has a positive impact on our loan book balance, as slowing sales means that dealers hold more stock on their forecourts, and for longer.

Overall, stock turn (i.e. the weighted average duration of repaid loans in the period) has slowed to 133 days (6 months to 30 June 2022: 110 days), extending by 13 days over FY22 (12 months to 31 December 2022: 120 days). Whilst this was expected, it is still below our historical annualised average of 150 days and our seasonally adjusted expectations, leaving additional capacity for loan book growth should sales slow further.

The average age of outstanding loans has extended quarter on quarter to 145 days in Q2 2023, from 128 days in Q1 2023 and 109 days in Q4 2022, with a further extension seen so far in this quarter at 158 days.

In the transportation sector, as an example, we have seen lower relative demand from end users for electric vehicles versus combustion engines, whereas by comparison demand has remained relatively high particularly in the motorhome and caravan sectors. In these markets new loan origination and therefore stock flowing to dealers has remained robust, despite this dynamic.

Portfolio By Sector

The following table analyses the portfolio at the reporting date by principal outstanding:

	30 June 2023		30 June 2022		31 December 2022	
	£million	%	£million	%	£million	%
Leisure						
Lodges and holiday homes	157.1	30.3%	94.2	30.6%	117.3	26.7%
Motorhomes and caravans	97.1	18.7%	58.0	18.8%	83.1	18.9%
Marine	48.1	9.3%	36.6	11.9%	47.5	10.8%
Motorsport	28.8	5.5%	15.7	5.1%	20.6	4.7%
Specialist and prestige cars	4.1	0.8%	1.8	0.6%	2.9	0.7%
	335.2	64.5%	206.3	67.1%	271.4	61.8%
Commercial						
Transport	112.1	21.6%	54.4	17.7%	113.4	25.8%
Industrial equipment	31.5	6.1%	27.5	8.9%	30.0	6.8%
Agricultural equipment	25.6	4.9%	19.4	6.3%	24.4	5.6%
	169.2	32.6%	101.3	32.9%	167.8	38.2%
Wholesale and receivables funding	14.9	2.9%	-	0.0%	-	0.0%
Total loan book principal¹	519.3	100%	307.6	100%	439.2	100%

¹ Principal balance outstanding at the reporting date for loans and advances to customers.

During the period, we originated c.£21m of new lending across adjacent receivables financing (better known as invoice discounting) and wholesale funding products. Whilst these lending opportunities remain small in the context of our entire loan book at £15m (c3%) at the end of June 2023, they present attractive risk-adjusted returns for the Group and diversification within the loan book, as well as offering routes to deepen relationships with our customers, providing them with alternative lending products that support their businesses' needs.

Becoming a multi-product lender remains a strategic imperative for the Group over the medium term. We have continued to explore inorganic opportunities, be that through business combination or partnership with others, but are yet to identify an opportunity that demonstrates acceptable financial characteristics which would be additive to the Group's longer-term ambitions. As we continue to scale the bank, building diversification in both lending product and obligor mix are important for the Group to effectively manage its risk weighted assets, control concentration risk and remain capital efficient.

Financial performance

Summarised Statement of Comprehensive Income

	30 June 2023 6-month £'000	30 June 2022 6-month £'000	31 December 2022 12-month £'000
Gross revenues ¹	27,439	10,511	26,842
Interest expense	(9,126)	(1,865)	(6,411)
Net income²	18,313	8,646	20,431
Fee expenses	(180)	-	-
Other operating expenses	(11,148)	(7,926)	(16,831)
Impairment charges	(3,786)	(704)	(2,296)
Profit before taxation	3,199	16	1,304
Taxation	(938)	-	8,457
Profit after taxation	2,261	16	9,761
Other comprehensive loss	(53)	(172)	(79)
Total comprehensive income/(loss) for the period	2,208	(156)	9,682

¹ Sum of interest and similar income, fee income, net gains/(losses) on disposal of financial assets, and net losses from derivatives measured at fair value through profit or loss

² Gross revenues less interest and similar expenses

Summarised Statement of Financial Position

	30 June 2023 £'000	30 June 2022 £'000	31 December 2022 £'000
Cash and balances at central banks	46,642	47,586	107,353
Loans and advances to banks	5,067	20,898	3,848
Debt securities	24,528	31,997	22,964
Loans and advances to customers	513,787	305,629	435,883
Taxation asset	7,574	59	8,512
Other assets	5,639	3,448	3,936
Total assets	603,237	409,617	582,496
Customer deposits	498,357	304,377	479,736
Financial liabilities	1,317	499	445
Other liabilities	4,723	18,648	6,076
Total liabilities	504,397	323,524	486,257
Total equity	98,840	86,093	96,239

Net Interest Margin ahead of 6% target

Net Interest Margin (NIM), which is gross yield less interest expense, increased during the period to 7.5% (H1 2022: 6.1%), being well ahead of our NIM target of 6%, largely influenced by movements in UK base rates.

Gross yield increased by 43% to 10.6% (H1 2022: 7.4%), as base rate rises were passed on through newly originated loans. This coupled with a higher average loan book through the period saw gross revenues, which predominantly comprise interest and similar income of £26.5m and fee income of £0.8m, increased by 161% to £27.4m (H1 2022: £10.5m).

As expected, and given the rising base rate, the average cost of retail deposits increased during the period to 3.7% (H1 2022: 1.3%). As the Group's deposit book is predominantly an array of fixed rate tenors, it takes time for increasing deposit rates to fully flow through to the deposit book as a whole, only impacting as older maturing deposits are replaced by newer deposits at higher rates.

Accordingly, the loan book has repriced more quickly than the deposit book given its shorter average tenor, which has driven much of the favourable NIM expansion. This positive mis-match has been more pronounced in 2023 given the speed of base rate increases and whilst we expect some favourability in the near-term it is less likely to be as significant over the medium term; unwinding over time as the base rate reduces. Our target NIM remains unchanged at 6%.

Unlocking our operational leverage

During 2022, the Group bolstered and upgraded its commercial and relationship management team. Accordingly, most of the people resources we require to scale the bank over the near term are embedded in the business already, allowing us to unlock operational leverage as we grow our lending. Our platform is highly digitised and we continue to make investments in robotic process automation and character-recognition technologies to provide us with further operational capacity.

As a Group, we are not immune to the general and wage inflationary pressures. We have carefully managed these inflationary pressures whilst being mindful of the cost-of-living pressures faced by a number of our employees and our need to attract and retain high quality colleagues to support our growth ambitions.

As such, we expect any increase in cost relating to the core lending product, to be predominantly driven by increased relationship management and client facing employees and any on-going inflationary pressures. During the period under review operating expenses were £11.1m, an increase of 41% on the comparative period (H1 2022: £7.9m).

Whilst our overall operating expenses increased during the period, this increase was considerably lower than the relative increase in net income and our cost to income ratio reduced significantly to 61% (H1 2022: 92%). We expect our cost to income ratio to reduce further as we continue to scale the bank.

Strong portfolio and credit risk management

We are operating in a more challenging macro-economic environment, where a number of businesses will find it increasingly difficult to navigate rising interest rates, high inflation and potentially contraction in demand. Accordingly, we have held a highly cautious and vigilant approach to credit risk management.

We have continued to invest in technology and analytics to provide us with greater early warning of issues amongst our customers, as well as adding further capacity to visit dealers to ensure our security remains in place. Dealers selling assets and not repaying us directly (sale out of trust) is our single biggest credit risk.

We have made adjustments to our credit criteria for new dealer relationships to ensure we maintain a high-quality portfolio of relationships. Through this period of uncertainty and as we bring on new dealers, our focus is on the quality of dealer relationship rather than quantity of new dealers onboarded.

Scalability and credit quality of our manufacturer partners has been in focus for us through the period, making tough decisions to reposition relationships that do not meet our revised expectations. Whilst the Group added 16 new manufacturers in the period, the total number reduced to 86 key manufacturers and distributors who meet the Group's revised criteria (FY22: 90). The 20 manufacturers where relationships were terminated represented approximately £3.5m of the new loan origination to end of August, c0.4% of total new lending; management believe these relationships do not present scalable opportunities for the bank.

Arrears

The following table analyses the arrears balances of lending portfolio at the respective reporting dates. This table includes the arrears balance (principal, fees, and interest) by past due days, and a following table which summarises the maximum arrears days past due by total principal outstanding on the respective loan receivable:

	30 June 2023 £'000	30 June 2022 £'000	31 December 2022 £'000
Arrears - principal repayment, fees and interest			
1 - 30 days past due	475	541	136
31 - 60 days past due	1,226	145	1,084
61 - 90 days past due	219	12	25
91 + days past due	11,155	56	5,885
	13,075	754	7,130
Total % of loan book	2.5%	0.2%	1.6%
Associated principal balance			
1 - 30 days past due	1,400	13,033	2,016
31 - 60 days past due	1,385	1,866	1,512
61 - 90 days past due	-	-	214
91 + days past due	13,006	138	16,317
	15,791	15,037	20,058
Total % of loan book	3.0%	4.9%	4.6%

Despite the economic uncertainty, the actions we have taken to manage our portfolio have delivered a continued low number of arrears cases during the period, with just 29 dealers out of c1,150 in arrears at 30 June 2023. Total value of arrears has increased from the end of FY22 at 2.5% of the loan book (30 June 2022: 0.2% and 31 December 2022: 1.6%). The Group's arrears balance includes £10.4m outstanding in respect of a previously communicated large single obligor, which excluding this balance would have been 0.5% (31 December 2022: 0.6%).

This large single obligor, who has been a customer of the Group since June 2018, has been undergoing a major refinance and restructure. As a result, its facility is not currently operating in the normal course, and we are aware of a number of assets that have been sold out of trust or are missing from confirmed locations. While we had expected the restructuring and refinancing process to complete during Summer 2023, given the complexity of the situation and unique characteristics of our customer's position, progress has been slower than expected. We have been in regular direct communication with the firm's principal, its largest existing secured lenders, new shareholders and new lender throughout, despite the Group not being a direct counterparty to the refinance. Whilst the successful conclusion of this refinancing and restructure is not without risk, we are both confident and reassured by the extent of our dialogue with stakeholders. The Group continues to have cross company and personal guarantees relating to the facility in force. The Group will make further announcements as soon as it is able.

Cost of risk, which includes provisions for credit losses and write-offs, for the six months ended 30 June 2023 was 1.55% (H1 2022: 0.50%). Our approach to credit loss provisioning is principally a function of expected probability of default and loss given default, with additional consideration given for aged arrears cases. Where there are instances of more complex cases or obligor default, which remain in progress, the Group undertakes analysis of a range of scenarios, associating a likely outcome probability against each. These scenarios, which determine the size of any provision, are based on the specific circumstances of an individual case, known factors and the Group's relative security position. Following the principles of IFRS9 and given the probability-based approach to calculations, any individual case specific provision is

unlikely to represent the anticipated financial impact in either the most positive or least favourable outcome. Additionally, the Group's credit loss provision for the period incorporates an IFRS9 overlay increase for the general uncertain macro-economic environment and outlook. The Group has aggregate credit loss provisions for the whole portfolio and all arrears cases of £7.2m at 30 June 2023 (31 December 2022: £3.7m) with impairment charges of £3.8m for the period (H1 2022: £0.7m). The Group expects its full year cost of risk to trend back towards its through the cycle estimate of 1% of average gross receivable.

The Group's lending relative to its security position remains strong with a Loan to Wholesale Value ('LTV') of 88% (30 June 2022: 90% and 31 December 2022: 91%). This reduction in LTV is due to a slowdown in stock turn with an increase in the associated monthly capital repayments.

Our Security Position

	30 June 2023 £'000	30 June 2022 £'000	31 December 2022 £'000
Loan to wholesale value ¹	88%	90%	91%

¹ Wholesale price is the invoice value paid by the dealer to the manufacturer

On balance and given the current macro-economic environment, we are pleased with the underlying high quality and financial strength of our dealer obligors as a whole.

Effective deposit raising capability

We continue to operate an effective and well-diversified deposit raising capability, entering the best buy tables as necessary. Over £168m of deposits were raised or retained on maturity during the period (H1 2022: £84m), at an average interest rate of 4.4%. We continue to focus on existing customer retention, with c.70% of maturing deposits retained through loyalty products and a seamless online product change process. As at 30 June 2023, we had retail deposits totalling £498m (30 June 2022: £304m; 31 December 2022: £480m) from over 13,600 accounts. We continue to offer exceptional service to our deposit customers receiving over 1,800 feefo customer reviews with an average score of 4.7 over the past 12 months.

Well capitalised balance sheet to support near-term growth ambitions

The Group is well-capitalised. At 30 June 2023 the Group's equity stood at £98.8m (30 June 2022: £86.1m; 31 December 2022: £96.2m).

Supporting our growth ambitions, in January 2023, the British Business Bank agreed an initial £175m ENABLE Guarantee, which could be increased in the future to £350m. This Guarantee commitment provides the Group with incremental capacity to scale its loan book without the need for additional Tier 1 equity capital by up to £75m on the basis of the initial £175m facility and up to £150m if the facility is increased to £350m. In August 2023, this Guarantee was upsized to £250m, unlocking an additional c£105m of loan capacity without the need for any further Tier 1 capital.

Earlier this month, we announced that the Group secured a new £20m Tier 2 capital facility from British Business Investments, a wholly-owned commercial subsidiary of the British Business Bank. The facility, which has a term of 10 years, can be drawn in quarterly tranches of up to £5m.

Utilising the Group's existing equity, the entire £350m ENABLE Guarantee and the £20m Tier 2 facility, the firm has aggregate capacity to grow its loan book to over £800m.

Our CET1 ratio as at 30 June 2023 was 22% (30 June 2022: 31%; 31 December 2022: 22%) which reflects the benefit of the reduction in Risk Weighted Assets provided by the British Business Bank Enable Guarantee and is well above our regulatory capital minimum limits.

Current trading and outlook

Notwithstanding the slower repayment of our single large arrears case, the Board is pleased with the Group's operational and financial performance year-to-date. Over the summer months, the loan book has continued to perform ahead of our seasonally adjusted expectations closing August 2023 at more than £518m. New loan origination has remained strong, stock turn has extended further and with continued elevated NIM, we have generated additional profits. Given current trading, our expectation of further loan book growth and the rebalancing of the cost of risk through the balance of the year, we expect full year results for 2023 remain in line with the Board's expectations.

I am very proud of what the entire DF Capital team has achieved since the Group obtained its banking licence in September 2020, not least eight consecutive quarters of loan book growth. The progress we have made this year is a testament to the quality of business we are building, the dedication of our colleagues and the breadth and depth of relationships we have with our manufacturer and dealer customers.

Carl D'Ammassa
Chief Executive Officer

	30 June 2023 6-month	30 June 2022 6-month	31 December 2022 12-month
Financial Highlights			
Gross revenues (£m) ¹	27.4	10.5	26.8
Profit before taxation (£m)	3.2	0.0	1.3
Profit after taxation (£m)	2.3	0.0	9.8
Loan book principal (£m) ²	519	308	439
Net assets (£m) ³	98.8	86.1	96.2
Customer deposits (£m)	498.4	304.4	479.7
Regulatory capital (£m) ⁴	77.1	82.8	83.3
Common Equity Tier 1 capital ratio	22%	31%	22%
Gross yield ⁵	10.6%	7.4%	8.2%
Net interest margin ⁶	7.5%	6.1%	6.5%
Average cost of retail deposits ⁷	3.7%	1.3%	1.9%
Cost of risk ⁸	1.55%	0.50%	0.74%
Impairment loss coverage on loans to customers ⁹	1.38%	0.69%	0.84%
Cost income ratio ¹⁰	61%	92%	82%
Key Performance Indicators			
Loans advanced to customers (£m)	607	439	1,001
Number of dealer customers ¹¹	1,152	908	998
Number of manufacturer partners ¹²	86	85	90
Total credit available to dealers (£m) ¹³	926	724	817

¹ Sum of interest and similar income, fee income, net gains/(losses) on disposal of financial assets, and net losses from derivatives measured at fair value through profit or loss

² Principal balance outstanding for loans and advances to customers.

³ The equity held in the Group

⁴ Regulatory capital is the Common Equity Tier 1 capital held

⁵ The effective interest rate we charge our customers including fees

⁶ Gross yield including fees less interest expense

⁷ The weighted average interest rate we pay our depositors

⁸ Impairments and provisions in the period (annualised) as a % of average gross receivables.

⁹ Impairment allowance as a % of gross receivables at the period end

¹⁰ Operating cost as a % of total operating income.

¹¹ Number of borrower relationships

¹² Number of vendors and manufacturers with whom we have programs that support our lending

¹³ Amount of credit available to our customers to draw (uncommitted)

Alternative Performance Measures

Certain financial measures disclosed in the Interim Financial Report do not have a standardised meaning prescribed by International Financial Reporting Standards (IFRS) and may therefore not be comparable to similar measures presented by other issuers. These measures (defined above) are deemed to be alternative performance measures ("APMs").

APMs may be considered in addition to, but not as a substitute for, the reported IFRS results. The Group believes that these APMs, when considered together with reported IFRS results, provide stakeholders with additional information to better understand the Group's financial performance.

Based on the Group's strategy and business model, there are six principal risk categories used to help shape our policy and control framework. This categorisation creates structure for the risk policy framework and clear ownership/responsibility for assessing risk performance.

There are certain risk themes that cut across many of these risk types. We have chosen at this stage to manage them within the principal risks framework rather than separate them out, but keep this approach under active consideration. The most relevant cross cutting risk is climate change, which is considered in our risk assessment and controls but has not crystallized to the extent that we would separate it out into its own principal risk category.

Principal Risks

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. We have a framework in place which sets out our approach to Operational Risk, with associated roles and responsibilities further defined in a number of risk policies and standard operating procedures covering the various types of Operational Risk. Although the overall scope of Operational Risk would cover areas of Conduct and Compliance (i.e. regulatory) risks, we believe it makes sense to separate these items out as individual principal risks - Conduct Risk and Compliance Risk respectively given the importance of these risks in the context of the bank's activities and regulatory environment.	Key risk mitigation tools: operational risk policies, standard operating procedures, Risk and Control Self Assessments ("RCSAs"), risk event analysis, key controls testing, ongoing monitoring of risk metrics and limits, scenario analysis, information security and cyber defences, operational risk training, Operational Forums aligned to defined customer and internal journeys, change management framework, operational resilience framework, physical security and safety, regular risk training, Executive Risk Committee oversight.
Compliance Risk	Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the firm may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its activities. DF Capital operates within the context of the UK legal and regulatory environment. Our Compliance Framework sets out the responsibilities within the firm to ensure awareness of both current and upcoming legal and regulatory changes and how the firm plans and implements those requirements appropriately. Compliance risk also includes the bank's obligations under the Money Laundering Regulations and covers the Group's exposure to financial crime risks for which associated risk management policies and procedures are in place.	Key risk mitigation tools: compliance policies, regulatory monitor, enterprise-wide compliance and financial crime risk assessments, compliance monitoring plan, ongoing monitoring of risk metrics and limits, customer risk assessments, regulatory compliance training, Executive Risk Committee oversight.
Conduct Risk	We define conduct risk as the risk of detriment caused to DF Capital's customers or financial markets due to inappropriate execution of its business activities and processes, including the sale of unsuitable products and inappropriate behaviours. The Conduct Risk Framework outlines our approach for ensuring good customer conduct outcomes. It is supported by specific policies covering topics such as product governance, complaints, and vulnerable customers which detail the specific steps and responsibilities across the firm. The scope of conduct risk coverage includes our AIM requirements, with policies such as a Market Abuse Regime Policy (including Share Dealing Code) and a Substantial and Related Party Transactions Policy.	Key risk mitigation tools: conduct risk policies, product governance, enterprise-wide conduct risk assessment, ongoing monitoring of risk metrics and limits, monitoring of complaints and customer feedback, key controls testing, Code of Ethics, conduct risk training, Executive Risk Committee oversight, tracking and embedding of the New Consumer Duty requirements.
Prudential Risk	Prudential risk covers three financial risks relating to the bank maintaining sufficient resources to ensure it is financially resilient: <ul style="list-style-type: none"> Funding and liquidity risk: The risk that DF Capital 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 DF Capital has an insufficient amount or quality of capital to support the regulatory requirements of its business activities through normal and stressed conditions. 	Key risk mitigation tools: treasury policies, ICAAP, ILAAP, funds transfer pricing policy, additional stress testing, ongoing monitoring of risk metrics and limits, financial planning and forecasting, monitoring of external environment, Asset & Liability Committee and Executive Risk Committee oversight.

- **Market risk (including interest rate risk):** The risk of financial loss through un-hedged or mismatched asset and liability positions due to interest rate changes. This also includes the risk that assets and liabilities reference different interest rate bases and the risk of adverse financial impact from movements in market prices in the value of assets and liabilities.

Roles, responsibilities, and requirements for Liquidity and Capital management are outlined in the Treasury Policy, with risk appetite taking into account the results of the bank's ILAAP and ICAAP. The Treasury Policy also outlines the roles and responsibilities required for identifying, measuring, monitoring and controlling any interest rate risk which arises due to the mismatch between assets and liabilities.

<p>Credit Risk</p>	<p>Credit risk is the risk of financial loss arising from a customer or counterparty failing to meet their financial obligations to DF Capital. Credit risk is considered the most significant risk faced by DF Capital and can be broken down into the following categories:</p> <ul style="list-style-type: none"> • Client Default Risk: The risk of loss arising from a failure of a borrower to meet their obligations under a credit agreement. • Credit Concentration Risk: The risk of loss due to the concentration of credit risk to a specific customer, counterparty, geography, or industry. • Repurchase Risk: The risk of loss arising from the failure of a third-party to meet a claim under a repurchase agreement. • Security Risk: The risk that an asset used as security to mitigate a credit loss does not provide the protection to the Company that is expected, leading to unanticipated losses. • Counterparty Risk: The failure of a Group counterparty or derivative provider. <p>A credit framework and policies are in place to manage DF Capital's credit risk exposure, covering the roles and responsibilities of the Group's lending and investment activities.</p>	<p>Key risk mitigation tools: Credit underwriting criteria, asset audits, sector deep-dive reviews, portfolio monitoring, ongoing monitoring of risk metrics and limits, hindsight reviews of default events, monitoring of external environment, Credit Committee and Executive Risk Committee oversight.</p>
<p>Strategic Risk</p>	<p>Strategic risks are the risks which can adversely impact the ability of DF Capital in achieving its strategic objectives. These risks may impact shareholder value, earnings or growth from poor strategic decisions, improper implementation of business strategies or from external events.</p> <p>The level 2 principal risks which fall under this category include:</p> <ul style="list-style-type: none"> • Strategic Planning Risk: The risk of strategic plans being unachievable or unrealistic. • Execution Risk: The risk of failing to execute the Group's strategy and failing to deliver key strategic initiatives required to meet the financial and commercial targets of the Group. • Strategic Projects Risk: The risk of delay or failure of strategic projects and programmes. • External Environment: The risk of failing to address the impact of external events and competitive threats. <p>Strategic risks are considered as part of DF Capital's strategic and financial plans. Stress scenarios are modelled as part of the ICAAP and ILAAP to determine what level of capital and liquidity the Group will need to hold in support of its strategic and financial plans.</p>	<p>Key risk mitigation tools: Executive Committee and Board oversight, comprehensive risk assessments of strategic and financial plans, stress testing, horizon scanning, ongoing monitoring of macro- and microeconomic environment, change management framework.</p>

The Enterprise-wide key and emerging risks of the Group are: Macroeconomic risks; Operational execution and change; Cyber risk; and Climate change. Full details of each emerging risk, including the potential impact of the risk and how the risk is managed, are set out in the 2022 Annual Report and Accounts. As for any organisation, we are exposed to near-term plan risk, given the comments made about macroeconomic risk below.

Relevant updates for these risks are provided below.

Macroeconomic risk

We are operating in a more challenging macro-economic environment where the impact of high inflation and rising interest rates has been felt across a number of sectors, where discretionary spend has tightened, adversely impacting dealer sales. This dynamic has a positive impact on our loan book balance, as slowing sales means that dealers hold more stock on their forecourts, and for longer. But a prolonged and/or deep recession could ultimately lead to a rise in loan losses. The Group is protected through its various layers of security and is employing enhanced controls in preparation for an expected turn in the credit cycle.

We, the Directors, confirm that to the best of our knowledge:

- the interim condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the United Kingdom (UK);
- the interim report includes a fair review of the performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the interim report and financial statements, taken as a whole, are fair, balanced and understandable.

By order of the Board

.....
Carl D'Ammassa
Director
28 September 2023

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the condensed consolidated statement of comprehensive income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cashflow statement and related notes 1 to 28.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the AIM Rules of the London Stock Exchange.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). 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.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, “Interim Financial Reporting”.

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the AIM rules of the London Stock Exchange.

In preparing the half-yearly financial report, the directors are responsible for assessing the group’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company 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 company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
28 September 2023

		6 months ended 30 June 2023 (Unaudited) £'000	6 months ended 30 June 2022 (Unaudited) £'000	Year ended 31 December 2022 (Audited) £'000
	Note			
Interest and similar income	5	26,542	9,999	25,407
Interest and similar expenses	6	(9,126)	(1,865)	(6,411)
Net interest income		17,416	8,134	18,996
Fee income		819	540	1,348
Fee expenses		(180)	-	-
Net losses on disposal of financial assets at fair value through other comprehensive income		-	(17)	(17)
Net gains from derivatives and other financial instruments at fair value through profit or loss		72	(16)	99
Other operating income		6	5	5
Total operating income		18,133	8,646	20,431
Staff costs	7	(7,155)	(5,122)	(10,848)
Other operating expenses	9	(3,993)	(2,804)	(5,983)
Net impairment loss on financial assets	11	(3,786)	(704)	(2,296)
Total operating profit		3,199	16	1,304
Profit before taxation		3,199	16	1,304
Taxation	12	(938)	-	8,457
Profit after taxation		2,261	16	9,761
Other comprehensive loss:				
Items that may subsequently be transferred to the income statement:				
FVOCI debt securities:				
Amounts transferred to the income statement		-	17	17
Fair value movements on debt securities		(53)	(189)	(96)
Total other comprehensive loss for the period, net of tax		(53)	(172)	(79)
Total comprehensive income/(loss) for the period		2,208	(156)	9,682
Earnings per share:				
		pence	pence	pence
Basic EPS	26	1	0	5
Diluted EPS	26	1	0	5

		30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
	Note			
Assets				
Cash and balances at central banks		46,642	47,586	107,353
Loans and advances to banks		5,067	20,898	3,848
Debt securities		24,528	31,997	22,964
Derivatives held for risk management	24	-	-	57
Loans and advances to customers	13	513,787	305,629	435,883
Trade and other receivables	14	2,340	1,811	1,524
Current taxation asset	15	55	59	55
Deferred taxation asset	16	7,519	-	8,457
Property, plant and equipment		1,220	122	1,045
Right-of-use assets	17	1,299	543	433
Intangible assets		780	972	877
Total assets		603,237	409,617	582,496
Liabilities				
Customer deposits	20	498,357	304,377	479,736
Derivatives held for risk management	24	1,409	24	42
Fair value adjustments on hedged liabilities	25	(1,579)	(8)	(84)
Financial liabilities	21	1,317	499	445
Trade and other payables		4,829	18,557	6,041
Provisions	10	64	75	77
Total liabilities		504,397	323,524	486,257
Equity				
Issued share capital	19	1,793	1,793	1,793
Share premium	19	-	39,273	39,273
Merger relief	19	94,911	94,911	94,911
Merger reserve		(20,609)	(20,609)	(20,609)
Own shares	19	(364)	(364)	(364)
Retained earnings/(loss)		23,109	(28,911)	(18,765)
Total equity		98,840	86,093	96,239
Total equity and liabilities		603,237	409,617	582,496

	Issued share capital £'000	Share premium £'000	Merger relief £'000	Merger reserve £'000	Own shares £'000	Retained earnings/ (loss) £'000	Total £'000
Balance at 31 December 2021 (Audited)	1,793	39,273	94,911	(20,609)	(364)	(28,945)	86,059
Profit after taxation	-	-	-	-	-	16	16
Other comprehensive loss	-	-	-	-	-	(172)	(172)
Share-based payments	-	-	-	-	-	190	190
Balance at 30 June 2022 (Unaudited)	1,793	39,273	94,911	(20,609)	(364)	(28,911)	86,093
Profit after taxation	-	-	-	-	-	9,745	9,745
Other comprehensive loss	-	-	-	-	-	93	93
Share-based payments	-	-	-	-	-	308	308
Balance at 31 December 2022 (Audited)	1,793	39,273	94,911	(20,609)	(364)	(18,765)	96,239
Profit after taxation	-	-	-	-	-	2,261	2,261
Other comprehensive loss	-	-	-	-	-	(53)	(53)
Share-based payments	-	-	-	-	-	393	393
Share premium account cancellation ¹	-	(39,273)	-	-	-	39,273	-
Balance at 30 June 2023 (Unaudited)	1,793	-	94,911	(20,609)	(364)	23,109	98,840

¹ See note 19 for further details of the share premium account cancellation transaction in the six-month period ended 30 June 2023.

		30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
	Note			
<u>Cash flows from operating activities:</u>				
Profit before taxation		3,199	16	1,304
Adjustments for non-cash items and other adjustments included in the income statement	18	4,174	1,629	4,664
Increase in operating assets	18	(85,081)	(60,775)	(193,189)
Increase in operating liabilities	18	17,281	21,025	183,809
Taxation received	15	-	-	4
Net cash used in operating activities		(60,427)	(38,105)	(3,408)
<u>Cash flows from investing activities:</u>				
Purchase of debt securities		(14,554)	-	-
Proceeds from sale and maturity of debt securities		13,000	76,070	85,070
Interest received on debt securities		196	603	746
Purchase of property, plant and equipment		(318)	(65)	(1,041)
Purchase of intangible assets		(103)	(95)	(193)
Net cash (used in)/generated from investing activities		(1,779)	76,513	84,582
<u>Cash flows from financing activities:</u>				
Repayment of lease liabilities	22	(106)	(71)	(141)
Net cash used in financing activities		(106)	(71)	(141)
Net (decrease)/increase in cash and cash equivalents		(62,312)	38,337	81,033
Cash and cash equivalents at start of the period	18	110,630	29,597	29,597
Cash and cash equivalents at end of the period	18	48,318	67,934	110,630

1. Basis of preparation

1.1 General information

The interim condensed consolidated financial statements of Distribution Finance Capital Holdings plc (the “Company” or “DFCH plc”) include the assets, liabilities and results of its wholly owned subsidiaries, DF Capital Bank Limited (“the Bank”) and DF Capital Financial Solutions Limited, together form the “Group”.

DFCH plc is registered and incorporated in England and Wales under company registration number 11911574. The registered office is St James’ Building, 61-95 Oxford Street, Manchester, M1 6EJ. The Company’s ordinary shares are admitted to trading on AIM, a market operated by the London Stock Exchange.

The principal activity of the Company is that of an investment holding company. The principal activity of the Group is as a specialist personal savings and commercial lending bank group. The Group provides niche working capital funding solutions to dealers and manufacturers across the UK, enabled by competitively priced personal savings products.

The interim report is 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 consolidated financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’ (‘IAS 34’).

The condensed set of financial statements included within this Interim Financial Report for the six months ended 30 June 2023 should be read in conjunction with the annual audited financial statements of Distribution Finance Capital Holdings plc for the year ended 31 December 2022.

The annual consolidated financial statements of Distribution Finance Capital Holdings plc are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the UK adopted IFRS.

The condensed consolidated financial information for the six months ended 30 June 2023 has been prepared using accounting policies consistent with IFRS. The interim information does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The financial information for the periods ending 30 June 2023 and 30 June 2022 are unaudited but has been reviewed by the Company's auditor, Deloitte LLP, and their report appears on page 16 of this Interim Financial Report. The comparative figures for the year ended 31 December 2022 are the Group’s statutory accounts and have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

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

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Group has adequate resources to continue operating in the foreseeable future. In making this assessment the Directors have considered the Group’s current available capital and liquidity resources, the business financial projections and the outcome of stress testing. Based on this review, the Directors believe that the Group is well placed to manage its business risks successfully within the expected economic outlook. Accordingly, the Directors have adopted the going concern basis in preparing the Interim Financial statements.

1.5 Critical accounting estimates and judgements

In accordance with IFRS, 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.

1.7 New accounting standards issued but not yet effective

The Group assesses on an ongoing basis the impact of new accounting standards which are not yet effective at the reporting date and the likely impact of the new accounting standard on the financial statements. At 30 June 2023, the Group has applied all new IFRS and foresees no additional standards with a likely material impact to consider at this time.

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 Group's latest annual audited financial statements for the year ended 31 December 2022.

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 areas involving the most complex and subjective judgements and areas where assumptions and estimates are considered to have the most significant effect on the financial statements are the same as those set out in Note 3 of the 2022 Annual Report and Accounts. A summary and updates regarding these critical accounting judgements and estimates are set out below.

Judgements

3.1. Expected credit losses loan impairment

Significant increase in credit risk for classification in stage 2

Counterparties are classified into stage 2 where the risk profile of the borrower profile has significantly increased from inception of the exposure. This increase in credit risk is signified by either increases in internal or external credit ratings, the counterparty becoming over 30 days past due, or forbearance measures being applied.

Definition of default

The Group aligns its definition of default to the regulatory definition for default in all periods presented. The Group applies the regulatory guideline of 90+ days in arrears and also uses internal and external information, along with financial and non-financial information, available to the Group to determine whether a default event has either occurred or is perceived to have occurred.

Should a default event occur the Group applies a probationary (“cooling off”) period to Stage 3 counterparties before being transferred back to either stage 1 or 2. The probationary period is typically 3 months but is extended up to 12 months for more severe scenarios. During the probationary period the counterparty must no longer meet the criteria for Stage 3 inclusion for the entire applicable period.

Estimates

The Group has made the following estimates in the application of the accounting policies that have a significant risk of material adjustment to the carrying amount of assets and liabilities:

3.2. Expected credit losses loan impairment

See the Group’s Annual Report for the year ended 31 December 2022 which outlines the assumptions the Group includes to best estimate the probability of default (“PD”), exposure at default (“EAD”); and loss given default (“LGD”) inputs within the impairment model in order to calculate the expected credit loss (“ECL”). The general design of the impairment model remains unchanged for the period ended 30 June 2023, however certain assumptions have been updated to reflect changes in circumstances.

Probability of Default (“PD”)

In the six-month period ended 30 June 2023, the Group observed a strong performance of defaults and a migration of counterparties into lower risk rating categories, which in turn has reduced the stage 1 and 2 PD in the six months since the 2022 annual report. The Group is closely monitoring the evolving macro-economic environment and is aware that some factors within the Group’s PD modelling are lagging indicators. Resultantly, the Group has elected to increase its PD modelling within the baseline scenario by approximately 20%, resulting in a £270,000 additional impairment charge. To support this estimation, the Group has recently engaged with an external economics research company to provide industry-specific economic forecasts.

A 100% deterioration in PDs (excluding stage 3 exposures, which are already in default) would result in an additional impairment charge of £1,643,000 at 30 June 2023 (30 June 2022: £871,000; 31 December 2022: £1,130,000).

Loss Given Default (“LGD”)

The Group reviewed its LGD modelling assumptions as at 30 June 2023 by comparing actual loss given default values against modelled LGD. The Group concluded its current LGD modelling was closely aligned to recent historical actuals.

Although the Group has observed strong performance in default recoveries within the six-month period ended 30 June 2023, the Group has elected to review its LGD modelling assumptions to reflect an uncertain economic outlook. Collateral haircuts have been reviewed at industry-level, along with an adjustment of “sold-out-trust” (SOTs) probabilities, which weaken the Group’s recovery position due to becoming uncollateralised. The total additional impairment charge from these LGD modelling adjustments in the period is £119,000.

A 10% reduction in the expected discounted cashflows from the collateral held by the Group would result in an additional impairment charge of £2,356,000 at 30 June 2023 (30 June 2022: £956,000; 31 December 2022: £2,389,000).

The Group’s arrears balance includes £10.4m outstanding in respect of a large single obligor. This obligor has been undergoing a major refinance and restructure. As a result, its facility is not currently operating in the normal course, and we are aware of a number of assets that have been sold out of trust or are missing from confirmed locations. This obligor balance is therefore assessed as a stage 3 exposure. For those counterparties who are in stage 3, where there are instances of more complex cases or obligor default, which remain in progress, the Group undertakes analysis of a range of scenarios, associating a likely outcome probability against each. These scenarios, which determine the size of any provision, are based on the specific circumstances of an individual case, known factors and the Group’s relative security position. Given the probability-based approach to calculations, any individual case specific provision is unlikely to represent the anticipated financial impact in either the most positive or least favourable outcome.

Forward looking macroeconomic scenarios

The Group considers four economic stress scenarios within its impairment modelling whereby the Group stresses PD and LGD inputs in accordance with expected macro-economic outlooks. This provides an ECL impairment allowance for each scenario which is multiplied by the likelihood of occurrence over the next 12-month period from the balance sheet date to give a probability weighted ECL.

Scenario	Probability Weighting (%)	ECL Impairment (£'000)	ECL Coverage ¹ (%)
30 June 2023 (Unaudited):			
Upside	15%	5,537	1.05%
Base	55%	6,286	1.19%
Downside	25%	9,026	1.71%
Severe downside	5%	12,778	2.42%
Weighted Total	100%	7,198	1.36%
30 June 2022 (Unaudited):			
Upside	15%	1,098	0.35%
Base	60%	1,695	0.55%
Downside	20%	3,311	1.07%
Severe downside	5%	5,889	1.90%
Weighted Total	100%	2,138	0.69%
31 December 2022 (Audited):			
Upside	15%	2,427	0.55%
Base	55%	2,823	0.64%
Downside	25%	5,343	1.20%
Severe downside	5%	9,362	2.11%
Weighted Total	100%	3,720	0.84%

¹ ECL Coverage is calculated by dividing the ECL impairment by the Exposure At Default (EAD). EAD is typically higher than the gross loan receivable balance.

In the event one of the above scenarios occurs and applied a 100% probability weighting the impact on the impairment allowances would be as follows:

Scenario	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Upside	(1,661)	(1,040)	(1,293)
Base	(912)	(443)	(897)
Downside	1,828	1,173	1,623
Severe downside	5,580	3,751	5,642

3.3. Deferred taxation asset

In the year ended 31 December 2022, the Group recognised a deferred taxation asset, which was based on the latest recently approved financial forecasts through to December 2026 with the deferred taxation asset being fully utilised during this period.

The forecast is inherently sensitive to the assumptions and estimates which underpin it, including macroeconomic conditions (such as interest rates, inflation and future tax rates), and is dependent on the Group's ability to successfully execute its strategy. As such, the expected utilisation of the deferred tax asset may vary significantly.

In the six-month period ended 30 June 2023, the Group has performed favourably in accordance with the forecasts used to estimate the deferred taxation asset. The Group has updated its forecasts for actual performance in the elapsed period to ensure the deferred taxation asset recognition is still valid.

Further, as detailed in note 3 of the audited consolidated financial statements of the Group for the year ended 31 December 2022, the Group has performed the same sensitivity analysis and is comfortable there is minimal risk to the deferred taxation asset recognition.

4. Operating segments

It is the Directors' view that the Group'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 the Group.

5. Interest and similar income

	6 months ended 30 June 2023 (Unaudited) £'000	6 months ended 30 June 2022 (Unaudited) £'000	Year ended 31 December 2022 (Audited) £'000
On loans and advances to customers	25,070	9,895	24,333
On loans and advances to banks	1,213	112	1,065
On debt securities - measured at FVOCI	259	(8)	9
Total interest and similar income	26,542	9,999	25,407

6. Interest and similar expenses

	6 months ended 30 June 2023 (Unaudited) £'000	6 months ended 30 June 2022 (Unaudited) £'000	Year ended 31 December 2022 (Audited) £'000
<u>On financial liabilities not at fair value through profit or loss:</u>			
Customer deposits	8,741	1,873	6,373
<u>On financial liabilities at fair value through profit or loss:</u>			
Net interest expense on financial instruments hedging liabilities	385	(8)	38
Total interest and similar expenses	9,126	1,865	6,411

7. Staff costs

	6 months ended 30 June 2023 (Unaudited) £'000	6 months ended 30 June 2022 (Unaudited) £'000	Year ended 31 December 2022 (Audited) £'000
Wages and salaries	5,672	4,166	8,651
Share based payments	393	190	499
Contractor costs	16	4	75
Social security costs	757	515	1,099
Pension costs arising on defined contribution schemes	317	247	524
Total staff costs	7,155	5,122	10,848

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

Refer to note 8 for further details on the share option schemes introduced by the Group in the six-month period ended 30 June 2023.

8. Share-based payments

Summary of movements in long-term incentive schemes during the period:

Plan	Options outstanding at start of period No.	Options granted during the period No.	Options forfeited during the period No.	Options exercised during the period No.	Options outstanding at end of the period No.
Six-month period ended 30 June 2023 (Unaudited)					
General Award 2020	222,500	-	(10,000)	-	212,500
General Award 2021	160,248	-	(6,000)	-	154,248
General Award 2022	385,511	-	(15,000)	-	370,511
General Award 2023	-	365,000	(10,000)	-	355,000
Manager CSOP Award	384,298	-	-	-	384,298
Manager PSP Award	853,334	-	-	-	853,334
CEO Recruitment Award	900,000	-	-	-	900,000
Senior Manager Award 2020	885,000	-	(173,200)	-	711,800
Senior Manager Award 2021	144,370	-	-	-	144,370
Senior Manager Award 2022	1,765,000	-	-	-	1,765,000
Senior Manager Award 2023	-	3,725,000	-	-	3,725,000
Leader & High Performer Award 2022	201,022	5,000	-	-	206,022
Leader & High Performer Award 2023	-	615,000	-	-	615,000
Recruitment Award 2023	-	300,000	-	-	300,000
Sharesave scheme	1,068,212	-	(139,775)	-	928,437
Total	6,969,495	5,010,000	(353,975)	-	11,625,520
Six-month period ended 30 June 2022 (Unaudited)					
General Award 2020	287,500	-	(50,000)	-	237,500
General Award 2021	216,000	-	(33,000)	-	183,000
General Award 2022	-	450,000	(15,000)	-	435,000
Manager CSOP Award	385,298	-	-	-	385,298
Manager PSP Award	853,334	-	-	-	853,334
CEO Recruitment Award	900,000	-	-	-	900,000
Senior Manager Award 2020	885,000	-	-	-	885,000
Senior Manager Award 2021	114,370	30,000	-	-	144,370
Senior Manager Award 2022	-	1,365,000	-	-	1,365,000
Leader & High Performer Award 2022	-	220,000	-	-	220,000
Total	3,641,502	2,065,000	(98,000)	-	5,608,502
Year ended 31 December 2022 (Audited)					
General Award 2020	287,500	-	(65,000)	-	222,500
General Award 2021	216,000	3,000	(58,752)	-	160,248
General Award 2022	-	450,000	(64,489)	-	385,511
Manager CSOP Award	385,298	-	(1,000)	-	384,298
Manager PSP Award	853,334	-	-	-	853,334
CEO Recruitment Award	900,000	-	-	-	900,000
Senior Manager Award 2020	885,000	-	-	-	885,000
Senior Manager Award 2021	114,370	30,000	-	-	144,370
Senior Manager Award 2022	-	1,765,000	-	-	1,765,000
Leader & High Performer Award 2022	-	220,000	(18,978)	-	201,022
Sharesave scheme	-	1,693,596	(625,384)	-	1,068,212
Total	3,641,502	4,161,596	(833,603)	-	6,969,495

During the six-month period ended 30 June 2023, the Group granted the following to employees:

General Award

Nil cost options over 365,000 ordinary shares of £0.01 each of the current share capital of the Company were granted to all employees (excluding Directors) in April 2023. These options vest over a 3-year period and are not subject to specific performance conditions.

Senior Manager Award

Members of the Group's Executive Committee and other senior managers were granted nil-cost options over 3,725,000 ordinary shares of £0.01 each of the current share capital of the Company in April 2023. These options vest over a 3-year period and are subject to specific non-market performance conditions.

Two Directors of the Group were granted options as part of this award. Carl D'Ammassa and Gavin Morris were granted 1,168,000 and 753,000 shares respectively.

Leader & High Performer Award

Managers and high performers (excluding Directors) were granted nil-cost options over 620,000 ordinary shares of £0.01 each of the current share capital of the Company during February 2023 to April 2023. These options vest over a 3-year period and are not subject to specific performance conditions.

Recruitment Award

Senior managers were granted nil-cost options over 300,000 ordinary shares of £0.01 each of the current share capital of the Company in April 2023. These options vest over a 3-year period and are not subject to specific performance conditions.

9. Other operating expenses

	6 months ended 30 June 2023 (Unaudited) £'000	6 months ended 30 June 2022 (Unaudited) £'000	Year ended 31 December 2022 (Audited) £'000
Finance costs	17	10	21
Depreciation	230	147	318
Amortisation of intangible assets	201	189	382
Professional services expenses	1,246	782	1,831
IT-related expenses	1,236	889	1,862
Other operating expenses	1,063	787	1,569
Total other operating expenses	3,993	2,804	5,983

10. Provisions

Analysis for movements in other provisions:

	Leasehold dilapidations £'000	Total £'000
6 months ended 30 June 2023 (Unaudited)		
At start of period	77	77
Additions	25	25
Utilisation of provision	-	-
Unused amounts reversed	(10)	(10)
Unwinding of discount	2	2
Lease modification	(30)	(30)
At end of period	64	64
6 months ended 30 June 2022 (Unaudited)		
At start of period	73	73
Additions	-	-
Utilisation of provision	-	-
Unused amounts reversed	-	-
Unwinding of discount	2	2
At end of period	75	75
Year ended 31 December 2022 (Audited)		
At start of period	73	73
Additions	-	-
Utilisation of provision	-	-
Unused amounts reversed	-	-
Unwinding of discount	4	4
At end of period	77	77

11. Net impairment loss on financial assets

	6 months ended 30 June 2023 (Unaudited) £'000	6 months ended 30 June 2022 (Unaudited) £'000	Year ended 31 December 2022 (Audited) £'000
Movement in impairment allowance in the period	3,673	513	2,028
Write-offs	113	191	268
Write-back of amounts written-off	-	-	-
Total net impairment losses on financial assets	3,786	704	2,296

See note 13 on further analysis of the movement in impairment allowances on loans and advances to customers.

12. Taxation

Analysis of tax charge recognised in the period:

	6 months ended 30 June 2023 (Unaudited) £'000	6 months ended 30 June 2022 (Unaudited) £'000	Year ended 31 December 2022 (Audited) £'000
<u>Current taxation charge:</u>			
UK corporation tax on profit for the current period	938	-	586
Adjustments in respect of prior years	-	-	-
Total taxation charge	938	-	586
<u>Deferred taxation (credit)/charge:</u>			
Current period	-	-	(9,043)
Adjustments in respect of prior years	-	-	-
Total deferred taxation (credit)/charge	-	-	(9,043)
Total taxation charge/(credit)	938	-	(8,457)

On 1 April 2023, the UK corporation tax rate increased from 19% to 25%, resulting in the current UK corporation tax on profits being levied at a blended rate of 23.5% for the period ended 30 June 2023 (30 June 2022: 19%, 31 December 2022: 19%). Further, on 1 April 2023, the banking surcharge rate reduced from 8% to 3% and the Bank Surcharge Allowance increased from £25m to £100m profits per annum.

Expenses that are not deductible in determining taxable profits/losses include impairment losses, amortisation of intangible assets, depreciation of fixed assets, client and staff entertainment costs, and professional fees which are capital in nature.

A deferred tax asset is only recognised to the extent the Group finds it probable that the prior taxable losses can be utilised against future taxable profits. As at 30 June 2023, the Group has an estimated unrecognised deferred tax asset of £0.8m (30 June 2022: £7.3m, 31 December 2022: £0.7m) from prior taxable losses.

Further details on the Group's deferred taxation asset can be found in note 16.

13. Loans and advances to customers

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Loan book principal	519,348	307,619	439,282
Accrued interest and fees	3,135	1,041	2,002
Gross carrying amount	522,483	308,660	441,284
less: impairment allowance	(7,198)	(2,138)	(3,720)
less: effective interest rate adjustment	(1,498)	(893)	(1,681)
Total loans and advances to customers	513,787	305,629	435,883

Refer to note 11 for further details on the impairment losses recognised in the periods.

Ageing analysis of gross loan receivables:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
<u>Not in default:</u>			
Not yet past due	505,480	304,834	422,845
Past due: 1 - 30 days	268	307	136
Past due: 31 - 60 days	78	-	1,074
Past due: 61 - 90 days	-	-	25
Past due: 90+ days	-	-	-
	505,826	305,141	424,080
<u>Defaulted:</u>			
Not yet past due and past due 1 - 90 days	5,502	3,463	11,319
Past due 90+ days	11,155	56	5,885
	16,657	3,519	17,204
Total gross carrying amount	522,483	308,660	441,284

Analysis of gross loan receivables in accordance with impairment losses:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2023 (Audited)	410,756	13,323	17,205	441,284
Transfer to Stage 1	23,053	(23,053)	-	-
Transfer to Stage 2	(43,568)	43,913	(345)	-
Transfer to Stage 3	(1,286)	(901)	2,187	-
Net lending/(repayment)	98,391	(14,802)	(2,358)	81,231
Write-offs	-	-	(32)	(32)
Total movement in receivables	76,590	5,157	(548)	81,199
As at 30 June 2023 (Unaudited)	487,346	18,480	16,657	522,483
Loss allowance coverage at 30 June 2023	0.48%	1.12%	27.87%	1.38%

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2022 (Audited)	239,327	9,585	542	249,454
Transfer to Stage 1	1,316	(1,306)	(10)	-
Transfer to Stage 2	(8,639)	8,643	(4)	-
Transfer to Stage 3	(1,522)	(2,388)	3,910	-
Net lending/(repayment)	56,546	3,597	(753)	59,390
Write-offs	(17)	-	(167)	(184)
Total movement in receivables	47,684	8,546	2,976	59,206
As at 30 June 2022 (Unaudited)	287,011	18,131	3,518	308,660
Loss allowance coverage at 30 June 2022	0.41%	0.40%	25.07%	0.69%

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2022 (Audited)	239,327	9,585	542	249,454
Transfer to Stage 1	6,920	(6,597)	(323)	-
Transfer to Stage 2	(29,077)	29,081	(4)	-
Transfer to Stage 3	(1,731)	(16,739)	18,470	-
Net lending/(repayment)	195,333	(2,007)	(1,310)	192,016
Write-offs	(16)	-	(170)	(186)
Total movement in receivables	171,429	3,738	16,663	191,830
As at 31 December 2022 (Audited)	410,756	13,323	17,205	441,284
Loss allowance coverage at 31 December 2022	0.47%	0.63%	9.84%	0.84%

Analysis of impairment losses on loans and advances to customers:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2023 (Audited)	1,943	84	1,693	3,720
Transfer to Stage 1	108	(108)	-	-
Transfer to Stage 2	(195)	337	(142)	-
Transfer to Stage 3	(8)	(148)	156	-
Remeasurement of impairment allowance	(679)	126	3,139	2,586
Net lending/(repayment)	1,180	(84)	(172)	924
Write-offs	-	-	(32)	(32)
Total movement in loss allowance	406	123	2,949	3,478
As at 30 June 2023 (Unaudited)	2,349	207	4,642	7,198

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2022 (Audited)	1,142	155	421	1,718
Transfer to Stage 1	18	(17)	(1)	-
Transfer to Stage 2	(60)	60	-	-
Transfer to Stage 3	(10)	(43)	53	-
Remeasurement of impairment allowance	-	64	624	688
Net lending/(repayment)	93	(146)	(48)	(101)
Write-offs	-	-	(167)	(167)
Total movement in loss allowance	41	(82)	461	420
As at 30 June 2022 (Unaudited)	1,183	73	882	2,138

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2022 (Audited)	1,142	155	421	1,718
Transfer to Stage 1	76	(73)	(3)	-
Transfer to Stage 2	(146)	146	-	-
Transfer to Stage 3	(13)	(421)	434	-
Remeasurement of impairment allowance	(24)	143	1,028	1,147
Net lending/(repayment)	908	134	(17)	1,025
Write-offs	-	-	(170)	(170)
Total movement in loss allowance	801	(71)	1,272	2,002
As at 31 December 2022 (Audited)	1,943	84	1,693	3,720

14. Trade and other receivables

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Trade receivables	1,276	919	850
Impairment allowance	(296)	(168)	(101)
	980	751	749
Other debtors	352	271	273
Accrued income	(89)	33	94
Prepayments	1,097	756	408
	1,360	1,060	775
Total trade and other receivables	2,340	1,811	1,524

All trade receivables are due within one year and typically due for payment within 30 days of invoice.

The trade receivable balances are assessed for expected credit losses (ECL) under the 'simplified approach', which requires the Group to assess all balances for lifetime ECLs and is not required to assess significant increases in credit risk.

Ageing analysis of trade receivables:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
<u>Not in default:</u>			
Not yet past due	941	617	563
Past due: 1 - 30 days	9	149	27
Past due: 31 - 60 days	41	1	2
Past due: 61 - 90 days	-	1	-
Past due: 90+ days	-	-	-
	991	768	592
<u>Defaulted:</u>			
Not yet past due and past due 1 - 90 days	255	49	194
Past due 90+ days	30	102	64
	285	151	258
Total trade receivables	1,276	919	850

Analysis of movement of impairment losses on trade receivables:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
At 1 January	101	75	75
Amounts written off	(1)	(4)	(19)
Amounts recovered	-	-	-
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	196	97	45
At period end	296	168	101

15. Current taxation asset

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
At 1 January	55	59	59
(Charge)/credit to profit and loss account	-	-	(586)
Repayments	-	-	(4)
Adjustments in respect of prior years	-	-	-
Utilisation of deferred taxation asset	-	-	586
At period end	55	59	55

16. Deferred taxation asset

The table below shows the movement in net deferred tax assets:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
At 1 January	8,457	-	-
(Charge)/credit to profit and loss account	-	-	8,457
Adjustments in respect of prior years	-	-	-
Utilisation of deferred taxation asset	(938)	-	-
At period end	7,519	-	8,457

The Group has an unrecognised deferred tax asset value of £0.8m (30 June 2022: £7.3m, 31 December 2022: £0.7m) which is not expected to be utilised for the foreseeable future.

On 1 April 2023, the UK corporation tax rate increased from 19% to 25%, and the Banking Surcharge rate reduced from 8% to 3%, with an increase in the Banking Surcharge Allowance from £25m to £100m. The Group has used these tax rates to calculate the deferred tax balances.

17. Right-of-use assets

	Buildings £'000
<u>Cost:</u>	
31 December 2021 (Audited)	1,138
Additions	1
Disposals and write offs	-
Lease modifications	6
As at 30 June 2022 (Unaudited)	1,145
Additions	3
Disposals and write offs	-
Lease modifications	5
As at 31 December 2022 (Audited)	1,153
Additions	385
Disposals and write offs	-
Lease modifications	567
As at 30 June 2023 (Unaudited)	2,105
<u>Accumulated depreciation:</u>	
31 December 2021 (Audited)	497
Charge for the period	105
Disposals and write offs	-
As at 30 June 2022 (Unaudited)	602
Charge for the period	118
Disposals and write offs	-
As at 31 December 2022 (Audited)	720
Charge for the period	86
Disposals and write offs	-
As at 30 June 2023 (Unaudited)	806
<u>Carrying amount:</u>	
At 30 June 2022 (Unaudited)	543
At 31 December 2022 (Audited)	433
At 30 June 2023 (Unaudited)	1,299

In the six-month period ended 30 June 2023, the Group entered into a new lease agreement for additional office space at its existing Manchester headquarters. The Group expects to utilise the right-of-use asset to the contractual maturity date in August 2030. The Group recognised additions of £394,000 in respect to the new lease agreement.

For an existing lease agreement, the Group expected to enact a contractual break clause in 2025 for its lease agreement of the Manchester headquarters office, however, following the signing of the agreement for additional space, the Group now expects for the original lease agreement to also elapse at the contractual end date in August 2030. Consequently, the Group has recognised £567,000 in lease modifications to reflect the increased expected term of the lease agreement.

Further, in the six-month period ended 30 June 2023, the Group reversed £10,000 for an unused dilapidations provision for a prior period terminated office lease agreement.

18. Notes to the cash flow statement

Cash and cash equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on demand and overnight deposits classified as cash and balances at central banks (unless restricted) and balances within loans and advances to banks. The following balances have been identified as being cash and cash equivalents:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Cash and balances at central banks	46,642	47,586	107,353
Loans and advances to banks	1,676	20,348	3,277
Total cash and cash equivalents	48,318	67,934	110,630

Adjustments for non-cash items and other adjustments included in the income statement:

	Note	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Depreciation of property, plant and equipment		144	42	95
Depreciation of right-of-use assets	17	86	105	223
Loss on disposal of property, plant and equipment		-	-	-
Amortisation of intangible assets		201	189	382
Loss on disposal of intangible assets		-	-	-
Share based payments	7	393	190	499
Impairment allowances on receivables	11	3,786	704	2,296
Movement in other provisions	10	(13)	-	4
Interest income on debt securities	5	(259)	8	(9)
Realised loss on debt securities		-	17	-
Finance costs	9	17	10	21
Unwind of discount	10	2	2	4
Interest in suspense		(183)	362	1,149
Total non-cash items and other adjustments		4,174	1,629	4,664

Net change in operating assets:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Increase in loans and advances to customers	(65,095)	(58,968)	(190,709)
Derivative financial instruments	57	-	(57)
Increase in other assets	(20,043)	(1,807)	(2,423)
Increase in operating assets	(85,081)	(60,775)	(193,189)

Net change in operating liabilities:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Increase in customer deposits	18,622	7,521	182,879
Derivative financial instruments	1,367	24	42
Fair value adjustments for portfolio hedged risk	(1,495)	(8)	(84)
(Decrease)/increase in other liabilities	(1,213)	13,488	972
Increase in operating liabilities	17,281	21,025	183,809

19. Equity

	30 June 2023 (Unaudited) No.	30 June 2022 (Unaudited) No.	31 December 2022 (Audited) No.	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Authorised:						
Ordinary shares of 1p each	179,369,199	179,369,199	179,369,199	1,793	1,793	1,793
Allotted, issued and fully paid: Ordinary shares of 1p each	179,369,199	179,369,199	179,369,199	1,793	1,793	1,793

Analysis of the movements in share capital:

	Date	No. of shares #	Issue Price £	Share Capital £'000	Share Premium £'000	Merger Relief £'000	Total £'000
Balance at 1 January 2022 (Audited)		179,369,199		1,793	39,273	94,911	135,977
No transactions within the period		-	-	-	-	-	-
Balance at 30 June 2022 (Unaudited)		179,369,199		1,793	39,273	94,911	135,977
No transactions within the period		-	-	-	-	-	-
Balance at 31 December 2022 (Audited)		179,369,199		1,793	39,273	94,911	135,977
Share premium account cancellation	29-Jun-23	-	-	-	(39,273)	-	(39,273)
Balance at 30 June 2023 (Unaudited)		179,369,199		1,793	-	94,911	96,704

At the Company's annual general meeting on 24 May 2023 (the "AGM"), a resolution was passed to cancel the Company's share premium account. The purpose of the proposed cancellation was to create additional distributable reserves and to provide the Company with greater flexibility and headroom in the future to: pay ordinary course dividends; undertake a share buyback; redeem preference shares; or to fund purchases by its Employee Benefit Trust of shares in the capital of the Company. As set out in the notice of the AGM, the Directors intend to apply £50,000 of the distributable reserves which the capital reduction has created to fund the redemption by the Company of the 50,000 non-voting redeemable preference shares of £1.00 each in the capital of the Company.

To be effective, the cancellation required Court approval which the Group has obtained and thus making the cancellation effective. This follows the Court order approving the reduction of capital which was registered with Companies House on 29 June 2023.

Own shares:

Own shares represent 2,963,283 (30 June 2022: 2,963,283; 31 December 2022: 2,963,283) ordinary shares held by the Group's Employee Benefits Trust to meet obligations under the Company's share and share option plans. The shares are stated at cost and their market value at 30 June 2023 was £1,022,333 (30 June 2022: £1,037,149; 31 December 2022: £992,700).

20. Customer deposits

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Retail deposits	498,357	304,377	479,736
Total customer deposits	498,357	304,377	479,736
Amounts repayable within one year	435,159	273,445	364,674
Amounts repayable after one year	63,198	30,932	115,062
	498,357	304,377	479,736

21. Financial liabilities

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Lease liabilities	1,267	449	395
Preference Shares	50	50	50
Total financial liabilities	1,317	499	445

Lease liabilities:

Refer to note 22 for further details on movements of lease liabilities during the six-month period ended 30 June 2022.

22. Lease liabilities

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Current	128	118	145
Non-current	1,139	331	250
Total lease liabilities	1,267	449	395

Maturity analysis:

Year 1	253	137	162
Year 2	252	184	184
Year 3	252	168	79
Year 4	252	-	-
Year 5	253	-	-
Onwards	482	-	-
Total lease payments	1,744	489	425
Finance charges	(477)	(40)	(30)
Total lease liabilities	1,267	449	395

Movements in lease liabilities in the period:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
At 1 January	395	504	504
Additions	365	-	-
Finance costs	17	10	21
Lease payments	(106)	(71)	(141)
Lease modification	596	6	11
At period end	1,267	449	395

In the six-month period ended 30 June 2023, the Group entered into a new lease agreement for additional office space at its Manchester headquarters. The Group has recognised £365,000 of additional lease payment obligations in respect to this new agreement.

In conjunction to the above new lease, the Group reviewed the expected term of the existing lease agreement of the Manchester headquarters office, which resulted in a lease modification of £596,218 – refer to note 17 for further details.

23. Financial instruments

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:

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
30 June 2023 (Unaudited)					
<u>Financial assets not measured at fair value:</u>					
Cash and balances at central banks	46,642	46,642	46,642	-	-
Loans and advances to banks	5,067	5,067	5,067	-	-
Loans and advances to customers	513,787	513,787	-	-	513,787
Trade receivables	980	980	-	-	980
Other receivables	352	352	-	-	352
	566,828	566,828	51,709	-	515,119
30 June 2023 (Unaudited)					
<u>Financial liabilities not measured at fair value:</u>					
Customer deposits	498,357	494,379	-	-	494,379
Other financial liabilities	1,267	1,267	-	-	1,267
Trade payables	469	469	-	-	469
Other payables	2,106	2,106	-	-	2,106
Preference shares	50	50	-	-	50
	502,249	498,271	-	-	498,271

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
30 June 2022 (Unaudited)					
<u>Financial assets not measured at fair value:</u>					
Cash and balances at central banks	47,586	47,586	47,586	-	-
Loans and advances to banks	20,898	20,898	20,898	-	-
Loans and advances to customers	305,629	305,629	-	-	305,629
Trade receivables	751	751	-	-	751
Other receivables	330	330	-	-	330
	375,194	375,194	68,484	-	306,710

30 June 2022 (Unaudited)					
<u>Financial liabilities not measured at fair value:</u>					
Customer deposits	304,377	303,640	-	-	303,640
Other financial liabilities	449	449	-	-	449
Trade payables	172	172	-	-	172
Other payables	16,882	16,882	-	-	16,882
Preference shares	50	50	-	-	50
	321,930	321,193	-	-	321,193

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 December 2022 (Audited)					
<u>Financial assets not measured at fair value:</u>					
Cash and balances at central banks	107,353	107,353	107,353	-	-
Loans and advances to banks	3,848	3,848	3,848	-	-
Loans and advances to customers	435,883	435,883	-	-	435,883
Trade receivables	749	749	-	-	749
Other receivables	273	273	-	-	273
	548,106	548,106	111,201	-	436,905

31 December 2022 (Audited)					
<u>Financial liabilities not measured at fair value:</u>					
Customer deposits	479,736	478,800	-	-	478,800
Other financial liabilities	395	395	-	-	395
Trade payables	218	218	-	-	218
Other payables	3,377	3,377	-	-	3,377
Preference shares	50	50	-	-	50
	483,776	482,840	-	-	482,840

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.

Cash and balances at central banks

This represents cash held at central banks where fair value is considered to be equal to carrying value.

Loans and advances to banks

This mainly represents the Group's working capital current accounts with other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

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.

Customer deposits

The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

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.

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

	Carrying Amount £'000	Principal Amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
30 June 2023 (Unaudited)					
<u>Financial assets measured at fair value:</u>					
Debt securities	24,528	25,000	24,528	-	-
	24,528	25,000	24,528	-	-

30 June 2023 (Unaudited)					
<u>Financial liabilities measured at fair value:</u>					
Derivative liabilities	1,409	165,000	-	1,409	-
	1,409	165,000	-	1,409	-

	Carrying Amount £'000	Principal Amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
30 June 2022 (Unaudited)					
<u>Financial assets measured at fair value:</u>					
Debt securities	31,997	32,000	31,997	-	-
	31,997	32,000	31,997	-	-

30 June 2022 (Unaudited)					
<u>Financial liabilities measured at fair value:</u>					
Derivative liabilities	24	5,000	-	24	-
	24	5,000	-	24	-

	Carrying Amount £'000	Principal Amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 December 2022 (Audited)					
<u>Financial assets measured at fair value:</u>					
Debt securities	22,964	23,000	22,964	-	-
Derivative assets	57	70,000	-	57	-
	23,021	93,000	22,964	57	-
31 December 2022 (Audited)					
<u>Financial liabilities measured at fair value:</u>					
Derivative liabilities	42	20,000	-	42	-
	42	20,000	-	42	-

Debt securities

The debt securities carried at fair value by the Company are treasury bills and government gilts. Treasury bills and government gilts 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.

Derivatives

Derivative instruments fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

Capital 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.

Refer to the audited financial statement of the Group for the year ended 31 December 2022 for further details of the Group's approach to capital management.

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
- Interest rate risk

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.

Refer to the audited financial statement of the Group for the year ended 31 December 2022 for further details of the Group's approach to credit risk management and impairment provisioning.

Collateral held as security:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Fully collateralised			
Loan-to-value* ratio:			
Less than 50%	4,972	3,955	2,798
51% to 70%	56,006	20,957	36,764
71% to 80%	61,764	34,002	63,239
81% to 90%	80,598	36,212	69,499
91% to 100%	301,148	213,203	264,118
Total collateralised lending	504,488	308,329	436,418
Partially collateralised lending	-	-	-
Unsecured lending	17,995	331	4,866

* 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 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 includes boats, motorcycles, recreational vehicles, caravans, light commercial vehicles, 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 initially determined by the risk rating assessed at the time that the borrowing facility is first approved and is assessed on an ongoing basis.

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 principal 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 the Group 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. The Group's gross receivable balance for loans and advances to customers is split by industry as follows:

	30 June 2023 (Unaudited)		30 June 2022 (Unaudited)		31 December 2022 (Audited)	
	£'000	Portfolio %	£'000	Portfolio %	£'000	Portfolio %
<u>Gross carrying amount:</u>						
Lodges and holiday homes	158,586	30%	94,696	31%	118,156	27%
Motorhomes and caravans	97,414	19%	58,103	19%	83,420	19%
Transport	112,605	22%	54,489	18%	113,595	26%
Marine	48,420	9%	36,786	12%	47,713	11%
Industrial equipment	31,644	6%	27,561	9%	30,159	7%
Motor vehicles	28,965	6%	17,490	6%	20,767	5%
Agricultural equipment	25,835	5%	19,535	6%	24,555	6%
Automotive	4,107	1%	-	0%	2,919	1%
Wholesale and receivables funding	14,907	3%	-	0%	-	0%
Total gross carrying amount	522,483	100%	308,660	100%	441,284	100%

Credit quality of borrowers:

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. Refer to the audited financial statements of the Group for the year ended 31 December 2022 for description of the meanings of Stages 1, 2 and 3.

30 June 2023 (Unaudited)	Stage 1		Stage 2		Stage 3		Total	
	£'000	Portfolio %	£'000	Portfolio %	£'000	Portfolio %	£'000	Portfolio %
<u>Gross carrying amount:</u>								
Above average (Rating 1-2)	366,504	70%	678	0%	-	0%	367,182	70%
Average (Rating 3-5)	90,005	17%	15,102	3%	37	0%	105,144	20%
Below average (Rating 6+)	30,837	6%	2,700	1%	16,620	3%	50,157	10%
Total gross carrying amount	487,346	93%	18,480	4%	16,657	3%	522,483	100%
	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %
<u>Impairment allowance:</u>								
Above average (Rating 1-2)	(944)	0.3%	(1)	0.2%	-	0.0%	(945)	0.3%
Average (Rating 3-5)	(1,101)	1.2%	(171)	1.1%	(1)	4.0%	(1,273)	1.2%
Below average (Rating 6+)	(304)	1.0%	(35)	1.3%	(4,641)	27.9%	(4,980)	9.9%
Total impairment allowance	(2,349)	0.5%	(207)	1.1%	(4,642)	27.9%	(7,198)	1.4%

30 June 2022 (Unaudited)	Stage 1 Portfolio		Stage 2 Portfolio		Stage 3 Portfolio		Total Portfolio	
	£'000	%	£'000	%	£'000	%	£'000	%
<u>Gross carrying amount:</u>								
Above average (Rating 1-2)	188,489	61%	-	0%	-	0%	188,489	61%
Average (Rating 3-5)	72,424	23%	17,279	6%	710	0%	90,413	29%
Below average (Rating 6+)	26,098	8%	852	0%	2,808	1%	29,758	10%
Total gross carrying amount	287,011	93%	18,131	6%	3,518	1%	308,660	100%

	ECL coverage		ECL coverage		ECL coverage		ECL coverage	
	£'000	%	£'000	%	£'000	%	£'000	%
<u>Impairment allowance:</u>								
Above average (Rating 1-2)	(302)	0.2%	-	0.0%	-	0.0%	(302)	0.2%
Average (Rating 3-5)	(533)	0.7%	(66)	0.4%	(465)	65.5%	(1,064)	1.2%
Below average (Rating 6+)	(348)	1.3%	(7)	0.8%	(417)	14.8%	(772)	2.6%
Total impairment allowance	(1,183)	0.4%	(73)	0.4%	(882)	25.1%	(2,138)	0.7%

31 December 2022 (Audited)	Stage 1 Portfolio		Stage 2 Portfolio		Stage 3 Portfolio		Total Portfolio	
	£'000	%	£'000	%	£'000	%	£'000	%
<u>Gross carrying amount:</u>								
Above average (Rating 1-2)	267,000	61%	6,629	2%	-	0%	273,629	62%
Average (Rating 3-5)	110,818	25%	5,433	1%	14,757	3%	131,008	30%
Below average (Rating 6+)	32,938	7%	1,261	0%	2,448	1%	36,647	8%
Total gross carrying amount	410,756	93%	13,323	3%	17,205	4%	441,284	100%

	ECL coverage		ECL coverage		ECL coverage		ECL coverage	
	£'000	%	£'000	%	£'000	%	£'000	%
<u>Impairment allowance:</u>								
Above average (Rating 1-2)	(475)	0.2%	(17)	0.3%	-	0.0%	(492)	0.2%
Average (Rating 3-5)	(981)	0.9%	(46)	0.8%	(1,292)	8.8%	(2,319)	1.8%
Below average (Rating 6+)	(487)	1.5%	(21)	1.7%	(401)	16.4%	(909)	2.5%
Total impairment allowance	(1,943)	0.5%	(84)	0.6%	(1,693)	9.8%	(3,720)	0.8%

See note 13 for analysis of the movements in gross loan receivables and impairment allowances in terms of IFRS 9 staging.

Analysis of credit quality of trade receivables:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Status at balance sheet date			
Not past due, nor defaulted	941	617	563
Past due but not in default	50	151	29
Defaulted	285	151	258
Total gross carrying amount	1,276	919	850
Loss allowance	(296)	(168)	(101)
Carrying amount	980	751	749

See note 14 for analysis of the movements in gross trade receivables and impairment allowances in terms of IFRS 9 staging.

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.

Refer to the audited financial statement of the Group for the year ended 31 December 2022 for further details of the Group's approach to liquidity risk management.

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.

The Group's treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's treasury policies, with the overall objective of managing market risk in line with the Group's risk appetite. The Asset and Liability Committee approves the Group's treasury policies and receives regular reports on all aspects of market risk exposure, including interest rate risk.

Refer to the audited financial statement of the Group for the year ended 31 December 2022 for further details of the Group's approach to market risk management.

24. Derivatives

Derivative financial instruments are used by the Group for risk management purposes in order to minimise or eliminate the impact of movements in interest rates and foreign exchange rates. Derivatives are not used for trading or speculative purposes.

The table below reconciles the gross amount of derivative contracts to the carrying balance shown in the Consolidated statement of financial position:

	Gross amount of recognised financial assets/(liabilities) £'000	Net amount of financial assets/(liabilities) presented in the Statement of Financial Position £'000	Cash collateral paid/(received) not offset in the Statement of Financial Position £'000	Net amount £'000
30 June 2023 (Unaudited)				
<u>Derivative assets:</u>				
Interest rate risk hedging	-	-	-	-
<u>Derivative liabilities:</u>				
Interest rate risk hedging	(1,409)	(1,409)	1,380	(29)
30 June 2022 (Unaudited)				
<u>Derivative assets:</u>				
Interest rate risk hedging	-	-	-	-
<u>Derivative liabilities:</u>				
Interest rate risk hedging	(24)	(24)	50	26
31 December 2022 (Audited)				
<u>Derivative assets:</u>				
Interest rate risk hedging	57	57	(28)	29
<u>Derivative liabilities:</u>				
Interest rate risk hedging	(42)	(42)	98	56

All derivative instruments which have been entered into are transacted against SONIA. Interest rate swaps are used to manage interest rate risk associated with the Group's customer deposits portfolio only. Due to the short-term duration of the Group's loans and advances to customers portfolio, and the ability to reprice the interest charged, the Group's interest rate risk on the loan portfolio is limited so the Group does not hedge against this risk.

Derivative assets and liabilities include a variation margin receivable of £1,380,000 (30 June 2022: £50,000, 31 December 2022: £70,000) with swap counterparties to mitigate credit risk for both parties. Further, the Group holds £2,000,000 (30 June 2022: £500,000, 31 December 2022: £500,000) of independent collateral with banks for the swap facility, which is not included within the above table.

The table below profiles the maturity of nominal amounts for interest rate risk hedging derivatives based on contractual maturity:

	Total nominal amount £'000	Less than 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	More than 5 years £'000
30 June 2023 (Unaudited)					
Derivative assets	-	-	-	-	-
Derivative liabilities	165,000	-	155,000	10,000	-
	165,000	-	155,000	10,000	-
30 June 2022 (Unaudited)					
Derivative assets	-	-	-	-	-
Derivative liabilities	5,000	-	5,000	-	-
	5,000	-	5,000	-	-
31 December 2022 (Audited)					
Derivative assets	70,000	-	30,000	40,000	-
Derivative liabilities	20,000	5,000	-	15,000	-
	90,000	5,000	30,000	55,000	-

The Group has 9 (30 June 2022: 1, 31 December 2022: 6) active derivative contracts with an average fixed rate of 4.60% (30 June 2022: 0.92%, 31 December 2022: 4.21%).

25. Hedge accounting

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
<u>Hedged liabilities</u>			
Current hedge relationships	(1,593)	(4)	(77)
Swap inception adjustment	14	(4)	(7)
Fair value adjustments on hedged liabilities	(1,579)	(8)	(84)

As at the period ended 30 June 2023, the Group presently only hedges liabilities in the form of its customer deposits. The Group does not hedge its loans and advances to customers given these assets are expected to reprice within a short time frame.

At present, the Group expects its hedging relationships to be highly effective as the Group hedges fixed term deposit accounts for which the fair value movements between the hedged item and hedging instrument are expected to be highly correlated.

Further, the Group does not anticipate having to rebalance the relationship once entered into due to the contractual terms of the fixed term deposits with depositors. In the period ended 30 June 2023, there has been no cancelled or de-designated hedge relationships due to failed hedge accounting relationships.

The tables below analyse the Group's portfolio hedge accounting for fixed rate amounts owed to retail depositors:

	30 June 2023 (Unaudited)		30 June 2022 (Unaudited)		31 December 2022 (Audited)	
	Hedged item £'000	Hedging instrument £'000	Hedged item £'000	Hedging instrument £'000	Hedged item £'000	Hedging instrument £'000
<u>Customer deposits:</u>						
Carrying amount of hedged item/nominal value of hedging instrument	168,165	165,000	5,025	5,000	90,505	90,000
Cumulative fair value adjustments	(1,579)	(1,409)	(8)	(24)	(84)	-
Fair value adjustments for the period	(1,495)	(1,409)	(8)	(24)	(84)	-

In the Consolidated Statement of Financial Position, £nil (30 June 2022: £nil, 31 December 2022: £57,000) of hedging instruments were recognised within derivative assets; and £1,409,000 (30 June 2022: £24,000, 31 December 2022: £42,000) within derivative liabilities.

26. Earnings per share

	6 months ended 30 June 2023 (Unaudited)	6 months ended 30 June 2022 (Unaudited)	Year ended 31 December 2022 (Audited)
Number of shares	#	#	#
At period end	179,369,199	179,369,199	179,369,199
Basic			
Weighted average number of shares in issue during period	179,369,199	179,369,199	179,369,199
Diluted			
Effect of weighted average number of options outstanding for the period	-	-	-
Diluted weighted average number of shares and options for the period	179,369,199	179,369,199	179,369,199
Earnings attributable to ordinary shareholders	£'000	£'000	£'000
Profit after tax attributable to the shareholders	2,261	16	9,761
Earnings per share	pence	pence	pence
Basic	1	0	5
Diluted	1	0	5

27. Related party disclosures

In the six-month period ended 30 June 2023, Directors Carl D'Amassa and Gavin Morris were awarded share options as a long-term incentive plan, refer to note 8 for further details.

Otherwise, during the six months period ended 30 June 2023, all other related party transactions have had no material effect on the financial position or performance of the Group. The related party transactions remain similar in nature to those disclosed in the audited financial statements of the Group for the year ended 31 December 2022.

28. Subsequent events

On 8 September 2023 the Group announced it had secured a new £20m Tier 2 Capital Facility from British Business Investments, a wholly-owned commercial subsidiary of the British Business Bank. The facility, which has a term of 10 years, can be drawn in quarterly tranches of up to £5m with each tranche having a fixed coupon. £5m was drawn under this facility on 22 September 2023.

In August 2023 the ENABLE Guarantee with the British Business Bank was upsized from £175m to £250m.

There have been no other significant events between 30 June 2023 and the date of approval of the Interim Financial Report that require a change or additional disclosure in the condensed consolidated interim financial statements.