DF Capital

Distribution Finance Capital Holdings plc

Annual Report and Financial Statements 2023

Company information

Distribution Finance Capital Holdings plc

Directors	**Mark Stephens** Independent Board Chair **Sheryl Lawrence** Senior Independent Director **Nicole Coll** Independent Non-Executive Director **Thomas Grathwohl** Independent Non-Executive Director **Haakon Stenrød** Non-Executive Director **Carl D'Ammassa** Chief Executive Officer **Gavin Morris** Chief Financial Officer
Company Secretary	**Gavin Morris** (interim: 29 November 2022 – 16 February 2023) **Karen D'Souza** (appointed 16 February 2023)
Registered Office	St James' Building, 61-95 Oxford Street, Manchester M1 6EJ
Registered Number	11911574
Independent Auditors	Deloitte LLP, 1 New Street Square, London EC4A 3HQ
Broker and Nominated Adviser	Liberum Capital Limited, Level 12, 25 Ropemaker Street, London EC2Y 9LY Until 9 April 2024, Investec Bank Plc (of 30 Gresham Street, London EC2V 7QP) was the Group's Nominated Adviser and Joint Broker alongside Liberum Capital Limited.
Principal Solicitors	Travers Smith LLP, 10 Snow Hill, London EC1A 2AL
Registrars	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Group structure	Distribution Finance Capital Holdings plc was incorporated in April 2019 'DF Capital Bank Limited' (formerly 'Distribution Finance Capital Limited') (company number 10198535) is a wholly owned subsidiary of Distribution Finance Capital Holdings plc. 'DF Capital Financial Solutions Limited' (company number 14891201) was incorporated on 24 May 2023 and is a wholly owned subsidiary of DF Capital Bank Limited.

DF Capital is a trading name of Distribution Finance Capital Holdings plc.: 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'.

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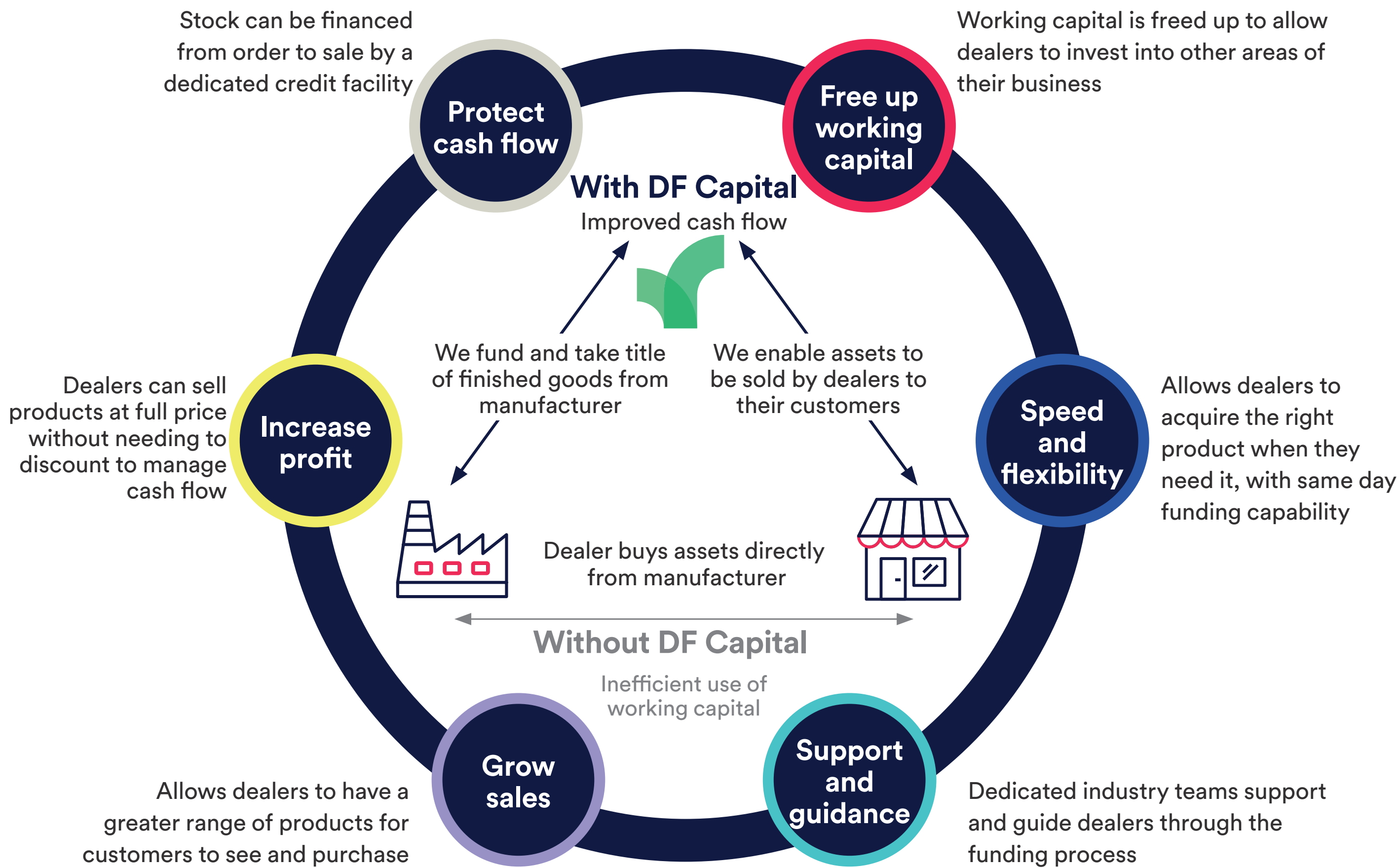
Strategic Report

How we help: benefits of distribution finance



Supported by award winning savings

feefo ★★★★★ 4.7

Over 13,300 customers

Over 15,200 unique accounts

c£575m deposits

Fast account opening

Online banking

Telephone support

Great rates

Highlights

£4.6m
Pre-tax profit
(2022: £1.3m)

WORLD CLASS
TO WORK FOR
2024
cert.b.co.uk

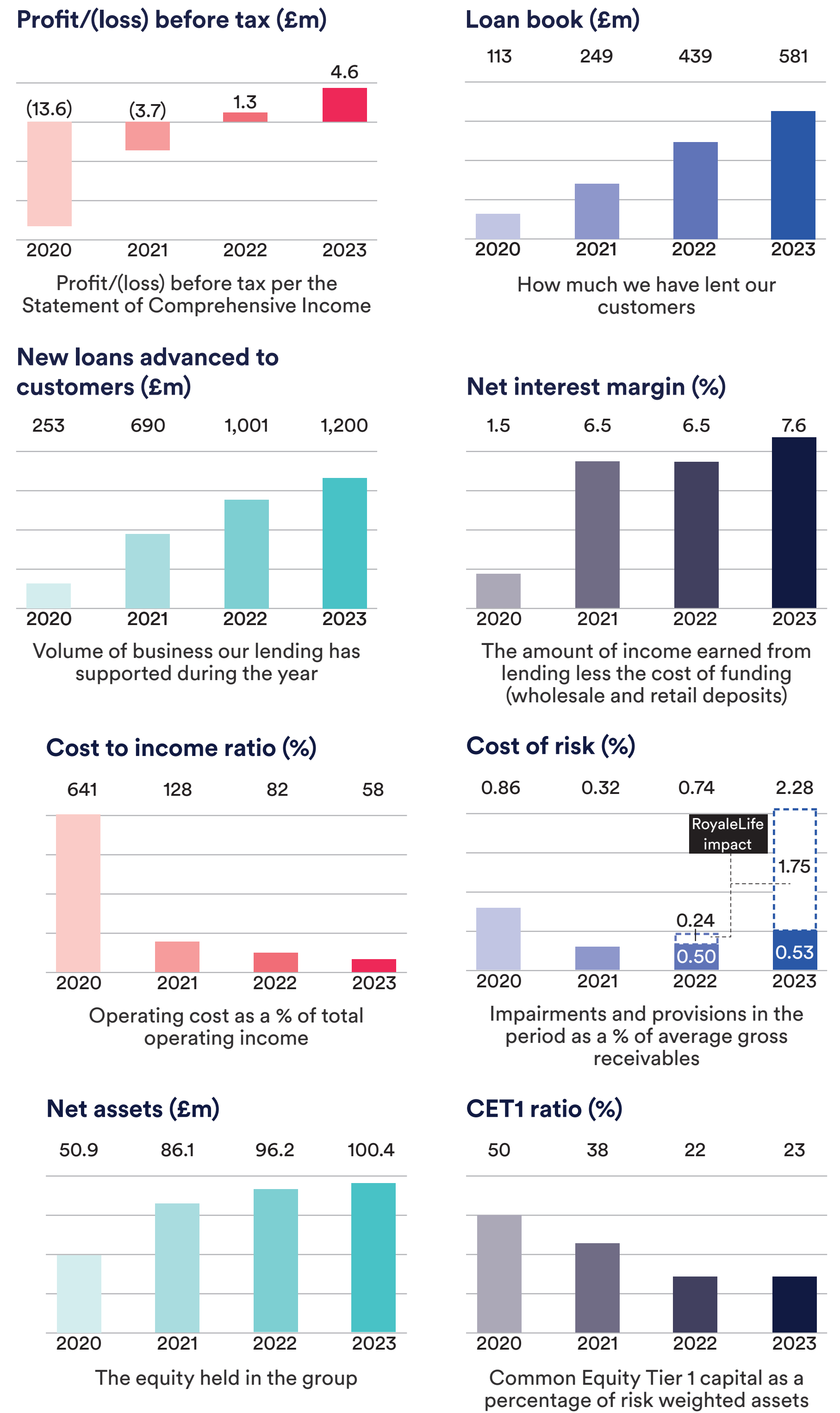
Platinum Trusted Service Award 2024 feefo

Exceptional Service 2023 feefo

LeasingWorld GOLD AWARDS WINNER 2023
COMMUNITY & CHARITY SUPPORT STAR

LeasingWorld GOLD AWARDS WINNER 2023
TOP INVENTORY & FLOORPLAN FUNDER

Financial performance



Certain financial measures disclosed in the Strategic 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 are deemed to be alternative performance measures ("APMs") and are defined in the Appendix.

Chair's Statement

Mark Stephens
Independent
Non-Executive Chair

Since receiving full authorisation as a bank in September 2020, the post-pandemic macro-economic headwinds have been significant. As a firm, one of our key priorities has been ensuring we achieve sustainable profitable growth to demonstrate the resilience of our business model. Following the Group's maiden profit in 2022, I am delighted that this has more than tripled, reaching £4.6m for the year.

Scaling the Group has been a key ingredient to defining our success. Having now closed the first quarter of 2024, the Group has delivered eleven consecutive quarters of loan book growth since authorisation. The bank supports more dealers and manufacturers each year, has successfully developed adjacent products and services to support its strategic growth ambitions, managed costs effectively and worked hard to navigate the inevitable credit risk challenges caused by higher interest rates and general inflationary pressures. The Board is very pleased with the firm's successes and the strong execution by the management team during the year.

Focus on culture is key to a sustainable and successful business

Having the right culture is an important element of being a successful and scalable financial services organisation. We have seen most recently the adverse impact and regulatory intervention that inadequate customer outcomes, deep rooted in a poor culture, can have on a firm. As a Board we spend a lot of our time focusing on the firm's culture as we believe that sustainable and successful businesses have a strong positive cultural DNA.

In the context of financial services, culture has a very broad definition, stretching from how products and services are designed and manufactured - particularly in the light of the new Consumer Duty; how firms go about meeting their regulatory responsibilities; the quality of service offered to customers; the support given to the communities in which firms operate; and how employees feel about working in the firm. Looking through this cultural lens, it is pleasing to see the extent of evolution across the various areas.

Assessed through the Board committee structure, we believe the firm's approach to risk management is robust. The firm's commitment to giving back to the communities in which it operates is impressive. We continue to offer exceptional levels of service and products that resonate with our customers too. It is, therefore, unsurprising given the firm clearly has these cultural elements right, that the Group improved its overall employee engagement through the period. For the third consecutive year the firm has increased its accreditation rating by Best Companies and I am very proud that it has been recognised in the latest survey as a 3-star world class place to work.

It is important to note, largely because we are regularly asked, that DF Capital has no exposure to any discretionary commission arrangements that has prompted the Financial Conduct Authority's review into the motor finance and the regulated consumer lending sector.

Committed to developing a multi-product lending franchise supporting dealers and manufacturers

The firm's strategic plan remains unchanged in that we remain committed to developing a multi-product lending franchise supporting the sales and development of dealers and manufacturers. Having reached profitability, the Board believes that retained earnings should be deployed to support medium-term growth and capital accretion. We do not believe at this stage of the Group's evolution that distributing profits via dividends is the right course of action. We will, however, keep this under regular review.

The Group believes it has capacity to grow its current loan book to approximately £800m based on current capital, upsizing the ENABLE Guarantee to £350m and a full drawdown of the £20m Tier 2 Capital Facility. Upon reaching a loan book of c£800m, the financial characteristics of the Group should support good organic growth from that point onwards although at slower rates than we have grown at since receiving the bank licence. We remain opportunistic when looking at alternative routes to unlock faster growth, including M&A.

Another year of significant progress

As you read this year's annual report, I am confident you will share my view that 2023 has been a year of exceptional achievements. Notwithstanding the sizeable credit loss provision relating to RoyaleLife, which the Board has closely monitored throughout, the underlying performance has been sufficiently strong that this unique and complex credit loss could be absorbed entirely whilst still delivering significant profitable growth.

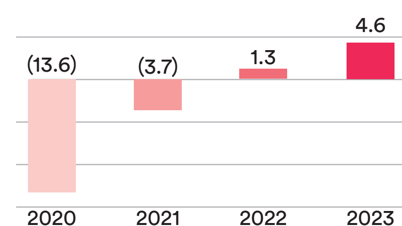
2023 has been another year of significant progress for the Group as we continue to scale the bank to achieve sustainable profitability and make progress on our journey to achieve mid-to-high teen returns.

Mark Stephens
Independent Non-Executive Chair

Chief Executive Officer's Report

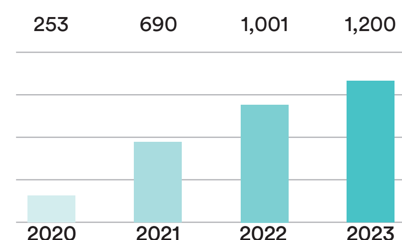
Carl D'Ammassa
Chief Executive Officer

Profit/(loss) before tax (£m)



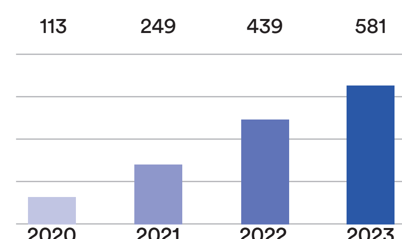
Profit/(loss) before tax per the Statement of Comprehensive Income

New loans advanced to customers (£m)



Volume of business our lending has supported during the year

Loan book (£m)



How much we have lent our customers

2023 has been another strong year for the Group. We determined soon after being authorised as a bank in September 2020 that scaling the firm would be our primary route to profitability and it is, therefore, pleasing to announce ten consecutive quarters of loan book growth over that period which has unlocked our second full year of profit.

The pace of lending growth, supported by the operational leverage in our cost base delivered a more than threefold increase in the Group's profit before tax, which reached £4.6m during the period. Our tangible net asset value per share has increased also to 55.6p (2022: 53.2p).

Strong execution delivers significant financial momentum

The Group's products and services continue to resonate with our customers. We have delivered record levels of new loan origination in the period, reaching £1.2bn, up almost 20% on the prior year (2022: £1bn), with the Group's loan book growing by over 32% to £581m (2022: £439m).

We have continued to grow our reach across the sectors in which we operate, supporting almost 1,200 dealers (2022: 998) with a record c£1bn (2022: £817m) of credit lines available to support their inventory and working capital needs.

The Group's net interest margin ("NIM") increased to 7.6% (2022:6.5%) having successfully balanced our lending pricing, which is directly linked to the Bank of England Base Rate, against the increasing retail deposit rates expected by our depositors.

Costs have continued to be well-managed through the period, with a further widening of the jaws between net income and the Group's operating cost, delivering a sizeable reduction in the cost-to-income ratio to 58% (2022: 82%).

Portfolio quality has remained strong with 30 dealers (December 2022: 24) in arrears one day past due, representing less than 3% of the Group's entire dealer customer base.

The strength of underlying business performance during the period is such that the Group has fully absorbed a unique and complex credit provision of c£10m relating to RoyaleLife, whilst still demonstrating this significant year-on-year profit increase of 250%.

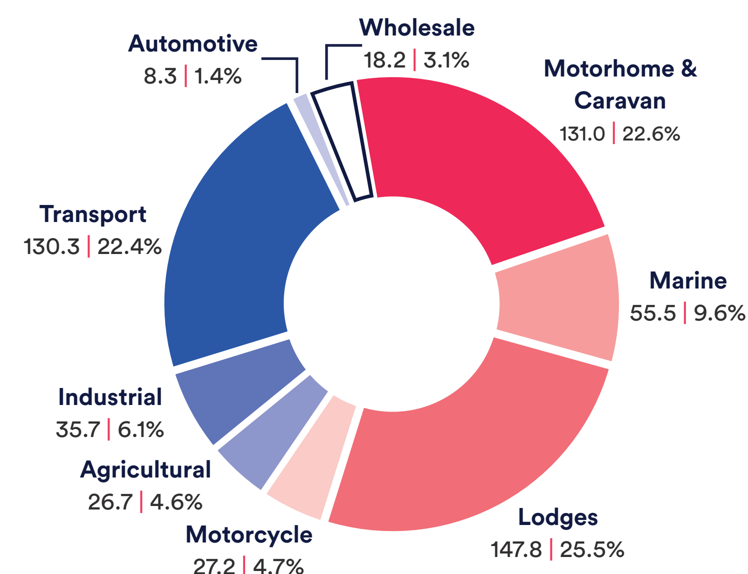
Holistically, we are very pleased with the Group's financial performance through the period.

Growing our market share

Whilst the macro-economic environment has been fairly unpredictable and some sectors have faced particular challenges, we have managed to navigate these well and grow our market share.

Our portfolio of loans remains well diversified across the sectors in which we operate, having seen double-digit growth in almost every sector. It is pleasing to see the progress we are making in the specialist automotive market where we have more than doubled our lending over the year.

Portfolio by sector - year end 2023 (£m)



As well as record levels of new loan origination, a continued move towards normalised levels of stock across most sectors has supported some of our loan book growth. After a few turbulent years during the pandemic where dealers were arguably overstocked then severely understocked due to supply chain challenges and high end-user demand shortly thereafter, it is pleasing to see more natural levels of inventory unfold. Stock turn, which we feel is most appropriately measured as the average age of loan outstanding, rather than our historical measure of average loan duration, has extended to 148 days (31 December 2022: 102 days), which falls in line with seasonal expectations and historical norms.

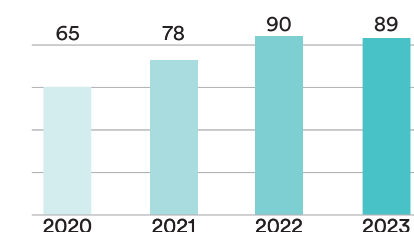
Slowing dealer sales has the potential to see our stock levels and loan book increase, with portfolio oversight continuing to be an important lever to control our credit risk.

It is fair to say that supply and demand dynamics across the sectors in which we operate are varied, with some still adjusting to the post pandemic environment and the macro-economic headwinds of elevated inflation and higher interest rates. This is particularly noted in the residential and holiday lodge markets, where manufacturers and park operators continue to navigate an imbalance between supply and demand, holding decent levels of stock coupled with slowing levels of manufacturer production. During this period of transition, a number of park operators have innovatively turned unsold stock into short-term holiday rental units, with our flexible lending approach ably supporting this.

Conversely, as motorised chassis cab availability has improved, we have seen an increase in stock levels across the motorhome sector. End-user demand remains particularly strong in this market. Manufacturing across the caravan market remains robust despite production marginally exceeding sales.

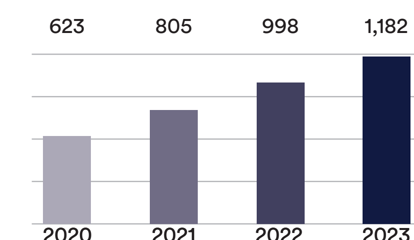
Across the motorcycle market registrations have been broadly flat on prior year, however, we have been able to grow our market share of the available inventory during the period in light of our strong service proposition. Larger boats and yachts have remained in strong demand, with higher interest rates adversely impacting consumer confidence to buy at the smaller end of the marine market.

Number of manufacturer partners



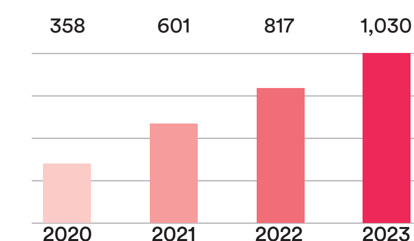
Number of vendors and manufacturers with whom we have programmes that support our lending

Number of dealer customers



Number of borrower relationships

Total credit lines (£m)



Amount of credit available to our customers to draw

Whilst we have seen growth across the non-leisure and commercial sectors, the market dynamic has been more challenging. Construction product demand has been adversely impacted by a slow down in housebuilding and major infrastructure projects such as the scaling back of HS2, meaning the market has grown at a slower pace than expected. Additionally, extreme weather conditions have caused challenges for the agricultural sector where demand for products has been sluggish. Changes in Government policy on vehicle electrification and negative sentiment around charging infrastructure has dampened demand for electric commercial vehicles, but conversely has encouraged sales of combustion engine panel vans and chassis, a trend we expect to continue through 2024. We have made some progress in extending our commercial vehicle reach into the HGV space of the market, where we see significant opportunity for further loan book growth.

We have balanced the sector specific headwinds and opportunities exceptionally well. We see further runway ahead whether scaling with our manufacturer partners; onboarding more dealers; supporting further bounce-back as markets stabilise and consumer confidence increases; growing our market share with dealers; and pressing on with new asset classes such as specialist automotive, materials handling (eg. forklifts) and heavy good vehicles.

We believe having diversified asset classes and operating across many sectors provides resilience against specific industry headwinds. We continue to operate in an environment that is uncertain and fraught with challenges, particularly persistently elevated interest rates. Keeping close to our manufacturer partners and maintaining intimate relationships with our dealer customers helps us navigate these challenges but also frame appropriate financing solutions that help our customers mitigate the risk and capitalise on opportunities they see to grow.

Our service levels and extent of relationship management is highly regarded by our customers, as demonstrated by our broadly stable net promoter score of +37 (2022: +41), which is well above our external benchmark of +30.

Entering new sectors and developing products and services

As an early stage bank, we are well versed in testing lending concepts in a small-scale and controlled manner, to support opportunities presented to us by our customers. We have successfully launched receivables financing solutions and wholesale funding (i.e. lending to non-bank lenders) as routes to support our existing customers and strategic partners. These opportunities present excellent risk adjusted returns for the Group. At the end of 2023, we had over £18m of our loan book (c3%) in these new products with loan origination exceeding £24m through the year. We expect to grow these initiatives further in 2024, but do not see them representing more than 10-15% of our entire lending balance.

We are excited by recent developments that have seen us enter into an agreement to provide both receivables financing and inventory finance to a supplier in the renewable energy sector. We believe the nature of this lending across serialised lower value faster moving goods has the potential to be an area of further growth for the Group.

Additionally, we now have an established capability to provide working capital to support selective dealers in the Euro-zone. Whilst our efforts in the space are narrow and limited, focused on partnerships in both the Republic of Ireland and the Netherlands, we believe they present excellent opportunities for us to assess routes for longer term European expansion.

We have spoken for some time about natural extensions to our existing manufacturer and dealer relationships by providing finance "beyond the forecourt", to support retail sales. Hire purchase and leasing are common lending products required by end-users in order to purchase our dealers' products. Dealers and manufacturer partners tell us that this is an area they feel DF Capital can further assist them, as they feel poorly or under-served by existing providers. We feel given the FCA's motor finance review, noting that the Group has no exposure to discretionary commission arrangements, that remediation efforts will distract many of the existing consumer hire purchase lenders, thus intensifying the needs of our dealers for a reliable, attentive and high quality provider to support product sales. We believe this represents a substantial opportunity for the Group and we expect to be well placed to fill this gap.

We have explored inorganic opportunities to bring hire purchase lending to life, unfortunately with little success thus far. Whilst we continue to actively consider inorganic routes to scale the bank further, we have started the organic build of a hire purchase capability, which will be targeted at our leisure assets on launch. The build is underway, and we expect to seek regulatory approval later in 2024, enabling us to ramp up the loan origination during 2025.

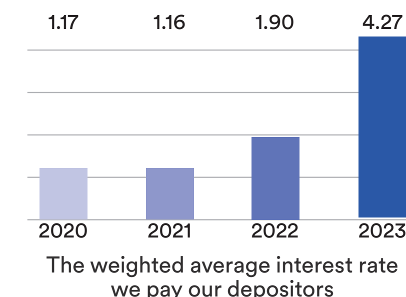
Highly regarded deposit raising capability

Our highly digitised retail deposit proposition continues to resonate with customers. We offer market leading rates, using "Best Buy Tables" as a route to attract new depositors. Our application journey is fast, allowing customers to open an account within minutes. We have invested in confirmation of payee capabilities through the year, which means customers not only receive a dedicated sort code and account number in their own name on application but also can confidently transfer funds from their nominated account having their new account details confirmed by their clearing bank. We launched our first easy access account this year too, opening up a further pool of depositors whilst also retaining loyal customers.

We believe service is key in building confidence in our depositors. Retention rates are high, typically c75% at product maturity. Our customers know that they can use our online platform to manage their accounts, or if they need assistance, they can call our Manchester based team to get the support they need without the long waits associated with many financial services firms.

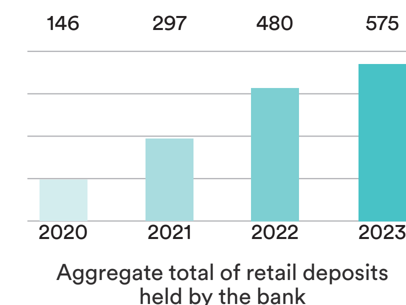
It is no surprise, certainly to us, that we receive such strong positive customer satisfaction scores as measured by Feefo. We closed 2023 at a consistent 4.7 stars (2022: 4.7) but have recently seen this increase further to 4.8 stars rated across almost 1,200 reviews over the last 12 months. We have also received Feefo's Platinum Trusted Service Award at the start of this year.

Average cost of retail deposits %



The weighted average interest rate we pay our depositors

Retail deposits (£m)



Aggregate total of retail deposits held by the bank

We closed the year with £575m of deposits, (2022: £480m) with over 15,200 accounts up over 20% on the prior year. Through the year we have continued to build a well-diversified range of product maturity profiles in the easy access, notice and fixed rate markets, raising £446m of new deposit or reinvestments at an average rate of 5.11%. We are currently building a business savings proposition, which should unlock lower funding costs for us over time, and expect to launch our maiden product during Q2 2024.

Our culture: Being a world-class place to work

We believe that sustainability in our business model is built by doing the right things for our customers, communities, the environment and our employees. We believe our focus on acting sustainably is deep rooted in the attitude of our employees and how they feel about the firm. Having employees that believe in what we are looking to achieve, support the ambitions of the firm and get it right for our customers define the quality of shareholder returns.

We have participated annually in the “Best Companies to Work for” survey over the last couple of years. We have been pleased with the progress we have made on the back of the employee feedback we receive through the survey. In 2023 97% (2022: 95%) of employees told us what they felt we were doing great and gave us pointers on how we can continue to evolve the firm’s culture, making DF Capital an even better place to work.

I am delighted that we’ve built on our 2-star accreditation from Best Companies in 2022, being seen as an outstanding place to work, to achieve a 3-star accreditation. This is the highest rating from Best Companies and indicates that we are providing world-class levels of employee engagement.

Giving back to our local communities is something core to our DNA and I am proud of what we have done to support local charities throughout the year, culminating in our “Mega Give Back” day where the entire team supported a dozen charities across Manchester for the day. Our colleagues are generous with their time, giving over 1,700 hours through the year to support initiatives close to their hearts. For a small bank of c130 employees I feel we significantly punch above our weight in this regard.

We have a culture at DF Capital that I am very proud of. We are growing the firm in a sustainable way by treating our employees fairly, delivering exceptional levels of customer service and having a sound focus on risk management right across the firm, critical for any financial services organisation.

RoyaleLife credit loss

We are very disappointed with the outcome relating to RoyaleLife and associated companies (“RoyaleLife”), a customer of the Group since June 2018.

Through the year, the business worked hard to navigate the challenges unfolding in respect of this large single obligor arrears case. RoyaleLife had been pursuing a major multi-billion pound refinance and restructure, and whilst supportive of the refinancing and restructure of RoyaleLife, the Group had not made any further loans to this customer beyond July 2022.

During the latter half of 2023, this refinancing process slowed significantly in light of the complexity of RoyaleLife’s financial situation, unique characteristics of the business and its complex organisational and legal structure. We had been in regular direct communication with the firm’s principal, its largest existing secured lenders, potential new investors and new lender throughout, despite the Group not being a direct counterparty to the refinance ourselves. We expected our facility to be repaid in full and all arrears cleared on successful completion of the refinancing and based on representations received from stakeholders to that effect.

For much of the year RoyaleLife’s facility was not operating in the normal course, with our audit process and portfolio monitoring discovering a significant number of our funded assets being sold out of trust or missing from confirmed locations. Following failure of the refinancing process late in 2023, it became clear that RoyaleLife’s financial situation and operation was much opaquer and more complex than originally determined, adversely impacting, to a greater degree than expected, a larger number of secured lenders and other creditors. Significant parts of RoyaleLife entered into administration and the principal has since faced bankruptcy having pledged personal guarantees and accrued debts in excess of £700m.

Given the unique circumstances associated with this arrears case and the extent of challenge across the entire and vast cohort of lenders, we determined that it would be prudent to make a full provision of c£10m, equivalent to the customer’s entire outstanding balance less a £0.4m negotiated settlement agreed with an individual park operator. We continue to pursue recovery of the outstanding debt to the fullest extent possible and where economically viable to progress.

Whilst identifying this case as unique in our portfolio of loans, we have ensured that our credit policies and portfolio management procedures are updated to reflect learnings from this case. We are confident that we do not have loans with similar characteristics and complex obligor structures in our portfolio.

Outlook

We have started the year with continued momentum, reporting our eleventh consecutive quarter of loan book growth. The Group’s loan book reached £610m at the end of the first quarter, up 5% from year end and over £100m increase on Q1 2023. Financial performance for the quarter is in line with expectations.

Whilst new loan origination has been strong, reaching £330m, unsurprisingly, given the macro-economic environment, dealers are cautious about materially increasing their overall stock position. Dealer sales to end-users have been strong in the quarter, particularly in motorhomes, caravans and commercial vehicles sectors, which has seen our stock turn remain relatively flat at 150 days and is in line with expectations as well as seasonal and historical norms.

Dealer numbers continue to increase, with the addition of 90 through the quarter, reaching 1,233 (December 2023: 1,182) on a net basis. Credit facilities have also increased to £1.1bn (December 2023: £1.0bn).

The Group’s overdue accounts continue to perform well, with 18 dealers having arrears one day past due or in legal recovery (December 2023: 30). The Group’s total arrears balance excluding the c£10m provisioned balance relating to RoyaleLife, equates to less than 0.3% of our entire loan book. Whilst we are pleased with this exceptional performance, this is better than normal levels and expectations.

Notwithstanding the continued challenging macroeconomic environment, we feel positive about the year ahead. We have a number of business development initiatives in play as well as the continued organic growth of our core lending product. We expect our loan book to close the year in the range of £650-£700m.

Having successfully secured the support of British Business Bank’s ENABLE Guarantee, a £20m Tier 2 capital facility from British Business Investments and our Tier 1 capital base, that is now growing through sustainable profitability, we see clear capital capacity to grow the bank to c£800m in the near-term.

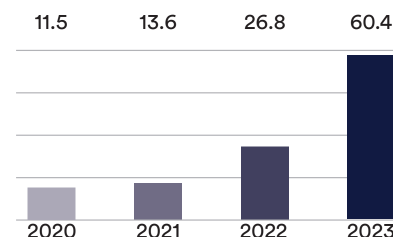
We remain ambitious for the Group’s future growth trajectory, seeing many opportunities in new lending product adjacencies that will allow us to further scale the bank and achieve mid-teen returns over the medium term. We stand firm in our ambitions to be a multi-product lender supporting the growth of our dealer and manufacturer customers in a deeper way across well-diversified end-user markets.

Carl D’Ammassa
Chief Executive Officer

Chief Financial Officer's Report

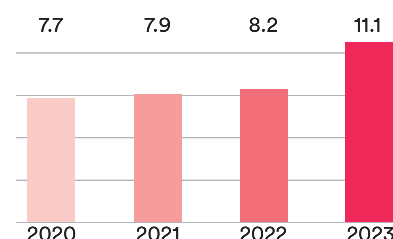
Gavin Morris
Chief Financial Officer

Gross revenue (£m)



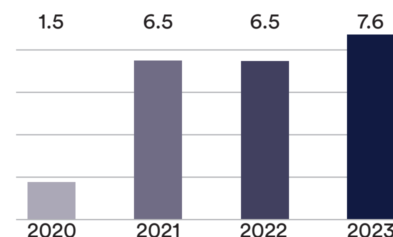
The interest and fees we earn on our loans, bank balances and debt securities, and net gains from derivatives

Gross yield (%)



The effective interest rate we charge our customers including fees

Net interest margin (%)



The amount of income earned from lending less the cost of funding (wholesale and retail deposits)

We are pleased to report a year of demonstrable sustainability in profitability; pre-tax profit has increased by 250% to £4.6m (2022: £1.3m) and we continue to make progress in our journey to increase returns, reporting earnings per share of 1.8p (2022: adjusted earnings per share of 0.4p[1]).

Net Interest Margin ahead of 6% target

Gross yield increased by 35% to 11.1% (2022: 8.2%), reflecting our ability to pass on base rate rises through newly originated loans. This, coupled with the continued significant year-on-year growth in the loan book, saw gross revenues, which are predominantly comprised of interest and similar income, increase by 125% to £60.4m (2022: £26.8m).

Net Interest Margin ("NIM"), which is gross yield less interest expense, increased by 17% during the period to 7.6% (2022: 6.5%), being well ahead of our NIM target of 6%, largely influenced by movements in UK base rates.

As expected, given the rising base rate, the average cost of retail deposits increased during the period to 4.27% (2022: 1.90%). 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, 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 in the year. 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 remain over the medium term; unwinding over time as the base rate reduces. Our longer-term target NIM remains unchanged at 6%.

Net income, which is gross revenues less interest expense, increased by 86% to £38.0m (2022: £20.4m), given the above factors.

Summarised Statement of Comprehensive Income

	2023 £'000	2022 £'000
Gross revenues	60,350	26,842
Interest expense	(22,336)	(6,411)
Net income	**38,014**	**20,431**
Operating expenses	(21,843)	(16,831)
Impairment charges	(11,598)	(2,296)
Profit before taxation	**4,573**	**1,304**
Taxation	(1,418)	8,457
Profit after taxation	**3,155**	**9,761**
Other comprehensive (loss)/income	183	(79)
Total comprehensive profit	**3,338**	**9,682**
Adjusted earnings per share	1.8p	0.4p[1]

Continuing to unlock our operational leverage

We have continued to invest in areas to support growth and scaling of the business, such as robotic process automation ("RPA"), API-connections with dealers, and character-recognition technologies. This builds further scalability into our operational capabilities. We have invested c£1m in systems and technology through the year to enhance our service further and unlock additional routes to release further operational leverage.

During 2022 the Group upgraded and grew its commercial and relationship management teams, feeling the full year benefit and cost of this during 2023. As a result, operating expenses increased by 30% to £21.8m (2022: £16.8m) and the Group's headcount reached 133 at the end of the year (31 December 2022: 117) with the majority of this further investment in customer facing roles. The increase in operating expenses of £5.0m is less than 30% of the £17.6m increase delivered in net income, meaning our cost to income ratio has reduced significantly to 58% (2022: 82%). We expect to see further reductions in this ratio as we scale the business, underpinning the delivery of our return ambitions.

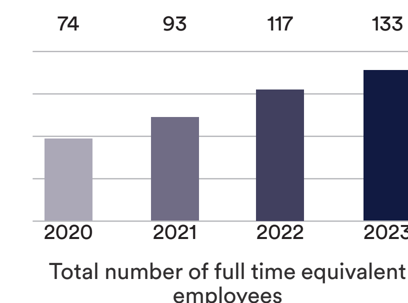
Strong portfolio and credit risk management

Despite the macro-economic challenges and higher interest rate environment, the actions we have taken to manage our portfolio have delivered a consistently low number of arrears cases, with just 30 dealers having arrears at least one day past due at year end (31 December 2022: 24) representing less than 3% of the Group's dealers base, which includes 20 cases in legal recovery. Our period end reporting of dealers in arrears and legal recovery consistently demonstrates the high quality of our obligor base and our successful intra-period actions to remediate dealer defaults by product redistribution through our customer network or sale of our secured assets to other parties, effecting recovery in whole or part. The Group's total arrears balance represents 2.5% of its entire loan book (31 December 2022: 1.6%). Excluding RoyaleLife, the Group's arrears balance at 31 December 2023 equates to 0.7% of its entire loan book. During Q1 2024, the number of dealers in arrears has reduced further.

Cost of risk, which includes provisions for credit losses and write-offs, was 2.28% (2022: 0.74%). Excluding the provision on RoyaleLife, cost of risk was 0.53% being significantly below the through the cycle estimate of 1% of average gross receivables.

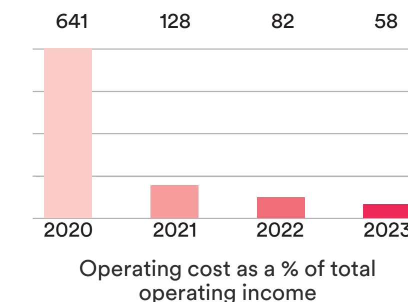
The combined stage 1 and 2 impairment allowance at 31 December 2023 as a percentage of gross receivables was 0.47% (December 2022: 0.46%) which incorporates an IFRS9 overlay for the general uncertain macro-economic environment and outlook. The total impairment allowance (comprising stages 1, 2 and 3) at 31 December 2023 as a percentage of gross receivables was 2.50% (2022: 0.84%), and excluding the impact of RoyaleLife was 0.85%.

Headcount FTE



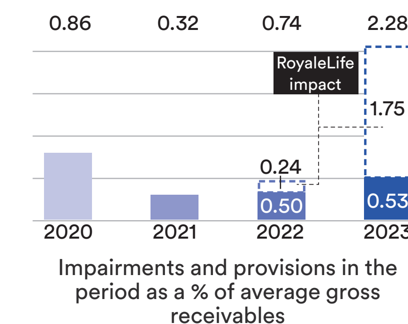
Total number of full time equivalent employees

Cost to income ratio (%)



Operating cost as a % of total operating income

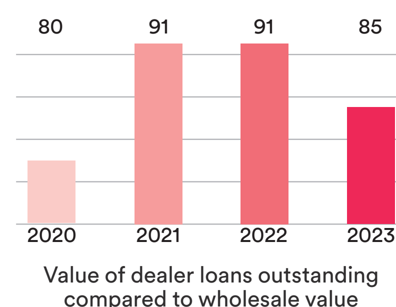
Cost of risk (%)



Impairments and provisions in the period as a % of average gross receivables

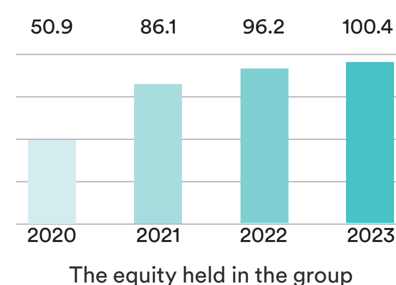
1. 2022 earnings per share is adjusted to remove the initial recognition of deferred tax assets that occurred in 2022. Earnings per share without this adjustment was 5.4p.

LTV %



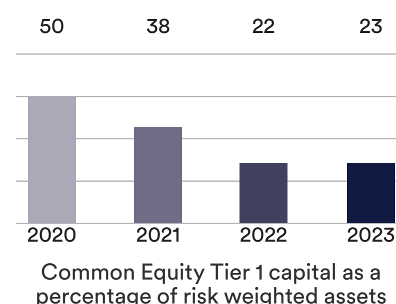
Value of dealer loans outstanding compared to wholesale value

Net assets (£m)



The equity held in the group

CET1 ratio (%)



Common Equity Tier 1 capital as a percentage of risk weighted assets

Arrears (£'000)

Arrears - principal repayment, fees and interest

	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20
1-30 days past due	696	136	105	27
31-60 days past due	265	1,084	834	22
61-90 days past due	946	25	0	39
91 days + past due	12,102	5,885	164	132
	14,009	**7,130**	**1,103**	**220**
% Loan book	**2.4%**	**1.6%**	**0.4%**	**0.2%**
Excluding RoyaleLife	**0.7%**	**0.6%**	**0.4%**	**0.2%**

Associated principal balance

	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20
1-30 days past due	1,253	2,016	951	96
31-60 days past due	717	1,512	834	7
61-90 days past due	1,900	214	0	14
91 days + past due	12,821	16,317	184	259
	16,691	**20,058**	**1,970**	**376**
% Loan book	**2.9%**	**4.6%**	**0.8%**	**0.3%**
Excluding RoyaleLife	**1.1%**	**1.4%**	**0.8%**	**0.3%**

Providing richer insight on the Group's stock turn

We committed earlier in the year to provide richer analysis and management information in relation to the Group's stock turn, recognising that our stated historical annual average of 150 days may not accurately reflect current market dynamics, the sectors in which we now operate and the current sector mix given our rate of growth and diversification. Having historically focused our attention on our average loan duration (ie. when loans are repaid) as a proxy for the speed of dealer sales, we believe that the average outstanding loan tenor is now a more appropriate measure to determine whether our portfolio is ageing against historical experience and our risk tolerances.

The average outstanding loan tenor can be significantly influenced by the quantum of new loan origination in the period relative to the portfolio, as well as the speed of loan repayment. Our historical data, which covers the period 2018 to 2023, is significantly influenced by both pandemic and post-pandemic market dynamics. During the lockdown periods, loan duration extended given dealers were closed for business and no new loans were originated as manufacturing ceased. Conversely, sales of products increased materially as did manufacturing capacity during post-pandemic periods, which saw both strong new loan origination and high loan repayments as assets sold.

Expected seasonal trends evidenced pre-pandemic have not been seen in our portfolio performance since 2020. Whilst helpful to monitor our loan ageing generally, measuring stock turn solely against our historical levels is not a reliable risk management performance indicator. Accordingly, we have provided in the table opposite the sector tolerance levels we apply in our portfolio oversight, alongside the annual average tenor of outstanding loans and our most recent experience.

Whilst average age of loans outstanding at 31 March 2024 has extended slightly beyond year-end to 150 days (31 December 2023: 148 days), it continues to operate well within our tolerances. The extended duration of loans in the lodge sector is in line with expectations particularly given the significant impact the aftermath of RoyaleLife's failure has had on new loan origination and orders with manufacturers, thus extending the average duration.

Strong security position

In our core inventory finance lending product, we take legal title against individual assets to provide working capital to fund dealers' inventory or stock. Loans are advanced against the wholesale value of an asset. The value of dealer loans outstanding compared to wholesale value (loan to value or "LTV") at 31 December 2023 was 85% (31 December 2022: 91%). This reduction in LTV is predominantly due to a slowdown in stock turn, which has in turn led to an increase in the associated monthly capital repayments. We do not advance funds measured against retail prices, which typically represent a mark-up of approximately 20% on the wholesale invoice price. Accordingly, for our funding to be at risk, and for the Group to incur losses on recovery of an asset in the event of default there would need to be an average reduction of approximately 30% in retail prices across the sectors and products we lend against.

We often hold additional security, which can mitigate credit losses further, in the form of personal and/or cross company guarantees as well as having manufacturer repurchase or redistribution agreements in place across c60% of our inventory finance loan book (2022: c.65%).

Well capitalised balance sheet supports growth ambitions

The Group is well-capitalised. At 31 December 2023 the Group's equity stood at £100.4m (31 December 2022: £96.2m).

During the year the Group entered into an ENABLE Guarantee with the British Business Bank for an initial £175m, which was subsequently increased to £250m and may be extended up to £350m in the future. In addition, the Group obtained a £20m Tier 2 Capital Facility from British Business Investments in September 2023 with £10m being drawn by year end. Gaining access to the ENABLE Guarantee and Tier 2 capital are key components of our strategic capital plan.

The Group believes it has capacity to grow its current loan book to approximately £800m based on current capital, upsizing the ENABLE Guarantee to £350m and a full drawdown of the £20m Tier 2 Capital Facility. At a c£800m loan book the financial characteristics of the Group would allow it to achieve further organic growth at a healthy rate without the need to raise additional Tier 1 capital.

Despite the 32% loan book growth during the year, the utilisation of the ENABLE Guarantee together with the £10m Tier 2 Capital drawn meant our CET1 ratio increased to 22.8% at 31 December 2023 (31 December 2022 c.22.1%); well above our regulatory capital minimum requirements.

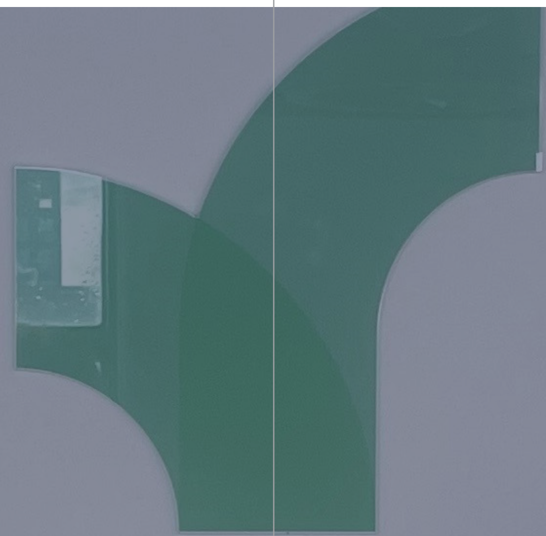
Gavin Morris

Chief Financial Officer

Stock turn (average age of loan outstanding - days)

	Recent trend vs expected norms [1]		Historical Annual Average	Tolerance Level	31-Mar-24	31-Dec-23
	New Loans	Repayments				
Agriculture	In line	In line	119	240	135	141
Automotive	Higher	Faster	73	200	64	83
Industrial	In line	Slower	120	250	160	167
Lodges	Lower	In line	154	300	260	239
Marine	In line	In line	132	250	153	147
Motorcycle	In line	In line	107	200	88	113
Motorhome & Caravan	Higher	Faster	105	200	110	98
Transport	Higher	Faster	86	200	109	122
Loan book average			**128**	**240**	**150**	**148**

Pay as sold inventory only - excludes rental lending and recovery cases, equivalent to 6% as at 31 December 2023.
1. Qualitative assessment based on 2023 experience quarter on quarter



Acting Sustainably

Lithium-ion forklift truck sold/distributed in the UK by Forktruck Solutions

Charlie Michael
Chief People and Sustainability Officer

At DF Capital, we firmly believe that the success of our sustainability goals is intrinsically linked to the dedication and contributions of our people. Our team plays a pivotal role in bringing our commitment to supporting customer growth, delivering value for shareholders, building stronger communities and fostering a greener planet to life.

The colleague experience at DF Capital is not just about doing a job; it's a shared journey characterised by hard work, passion, innovation, and unwavering advocacy for our core values. Our team members are not just employees; they are integral partners in driving positive change and embodying our commitment to sustainability.

We recognise that effective measurement is a powerful tool for driving real progress and our commitment to a 'measure and act' mindset is evident in our Sustainability scorecard featured throughout this section. By actively tracking key sustainability indicators, we not only identify areas for improvement but also ensure that our goals align with broader sustainability targets.

2023's achievements underscore our commitment to social and environmental responsibility. A standout moment was the successful launch of our new carbon accounting platform, enabling us to enhance the efficiency of our energy and climate disclosures. This strategic move reinforces our dedication to transparency and accountability on environmental matters. Our community outreach has also grown exponentially, developing existing and new community partnerships, which now sees us provide regular and ongoing support for eight community or charity partners through volunteering and/or fundraising.

Recognition for our sustainability efforts have poured in, receiving multiple awards featured throughout this section of the report. However, the pinnacle moment of the year was undoubtedly the prestigious 3-star accreditation from Best Companies. The award designates us as a world-class company to work for, as determined by our people. This recognition isn't just a badge; it's a celebration of our shared values, collaborative spirit, and the positive impact we're making together.

2024 will see us do even more. You'll see we've revised our scorecard to include new and stretching targets aligned to our evolving strategic ambitions. We will accelerate our journey to defining our net zero roadmap, extend our colleague volunteering entitlement to four days so our people can give more back to their local communities, explore further how we support more green funding for existing and new customers and continue to provide an inclusive, progressive and sustainable environment where our colleagues thrive.

I am immensely proud of the DF Capital team for their dedication and remarkable efforts in embracing sustainable practices. Looking ahead to 2024, I am filled with excitement and anticipation to see the ongoing positive impact we can collectively achieve.

I hope you enjoy reading about what we've achieved in 2023, just as much as we enjoyed making it happen.

Charlie Michael
Chief People and Sustainability Officer

For our customers

We will support their growth by deploying new technologies and supporting innovation and low carbon initiatives, being their bank of choice

Customer Scorecard

			Our target	2023 actual	2022 actual
Satisfied customers	Net promoter score	Measure of lending customers recommendation of our products and services	+30 or greater	+37	+41
	Feefo	Savers rating of our products and services out of 5 stars	>4.5 stars	4.7 stars + Platinum Trusted Service Provider	4.7 stars + Gold Trusted Service Provider
	Complaints ratio	No. of complaints per customer (savers + dealers + manufacturers)	<0.5% of customers	0.5% of customers	0.4% of customers

"I chose to open a savings account with DF Capital as it is a local bank and it was super to hear that the bank was closing for one afternoon so that all staff could take on some voluntary work, enabling them to give back to their local community."

Janet Adnams
Operations Manager
Stockport Foodbank

Becoming the bank of choice

We strive to be the bank of choice for our customers, providing products and services that resonate with them and meet their needs. The c20% growth in retail deposits and c32% growth in our loan book suggests we are getting something right. At the end of the year, we supported 89 manufacturers (compared to 90 the previous year), 1,182 dealers (up c18%) and over 15,200 depositor accounts (up c21%).

We have continued to enhance the way we deliver our products and services through our digitally enabled platforms. Whether a depositor or a borrower, we want our customers to find it easy to do business with us, whilst also being able to speak to members of our team when they bump into a problem or want to talk about how our products can better help them achieve their goals.

By leveraging robotics, we successfully implemented approximately 50 new processes in 2023, reclaiming around 20,000 hours of processing time. This advancement empowers us to allocate a greater portion of our resources towards relationship management and client-facing activities. Our commitment to technological innovation remains steadfast as we invest in cutting-edge tools such as Optical Character Recognition, System Orchestration, and Artificial Intelligence. These initiatives are aimed at enhancing the efficiency and seamlessness of our processes, ultimately providing our customers with quicker and more streamlined services.

Listening to our depositors

At our core, we are dedicated to providing our customers with competitive rates that are transparent and easy to understand, coupled with exceptional service. Continuously evolving based on customer feedback, in 2023, we proudly joined the confirmation of payee scheme, offering increased assurance regarding payment transactions. Our commitment to efficiency led us to implement same-day payments, alongside ongoing investments in product development and our online savings platform, enriching the experience for our valued customers.

Understanding the importance of real-time communication, we ensure that our customers can easily reach a knowledgeable member of our savings team, with over 90% of calls answered within 60 seconds – no long waits or complicated menu options. Every Feefo review we receive is meticulously reviewed, shaping our product offerings and future improvement strategies. Garnering an average rating of 4.7 stars in 2023 from over 1,200 reviews, we're thrilled to announce that our rating has climbed to 4.8 in the first quarter of 2024. Furthermore, we were honoured to receive the Feefo 2024 Platinum Trusted Service Award for outstanding customer service, a testament to the dedication of our team in serving our savings customers with excellence.

Throughout the year, we implemented various initiatives to retain depositors, particularly as fixed-term bonds matured. Recognising the significance of client retention, not only for our business but also through word-of-mouth recommendations, we introduced exclusive loyalty and retention rates for existing customers. As a result, we've achieved an impressive retention rate of c75%, underscoring the trust and satisfaction our customers place in DF Capital.

Understanding our lending customers in greater detail

We continue to be highly visible to our dealer and manufacturer partners. It's an integral part of our aim to put customer needs first. Our client and programme management teams are in frequent contact with our borrowers to ensure we have a good sense of how we are doing, understand their current and future funding requirements and to continually explore ways to make their lives easier.

We conduct an annual customer survey, using a Net Promoter Score ("NPS") as a benchmark as to how we are doing holistically. Our benchmark target is to achieve a score greater than +30, which our research suggests is achieved by companies offering high levels of customer satisfaction through digitised distribution models. Once again, this year, our NPS score exceeds the benchmark at +37. This represents a slight fall of 4pts from 2022, driven by a higher proportion of passive scores from newer, less active customers with limited funding experience with us.

In 2023, we started running transactional based NPS surveys at different points of the customer journey. We achieved average scores of +48 following account opening, +68 after funding an asset, and +46 following a physical audit being conducted.

We have continued to measure a broad range of factors to get a deep understanding of customer satisfaction. We measure how trusted we are by our customers (Trust Equation), how easy it is to do business with us (Customer Effort Score), as well as how suitable our products are for our customer's needs (Product Suitability).

The 'Trust Equation' looks to measure our overall trustworthiness through four objectives variables: Our Credibility; Our Reliability; Our Intimacy; and our Self-Orientation.

To measure our Customer Effort Score, we ask our lending customers how far they agree that DF Capital makes it easy to do business.

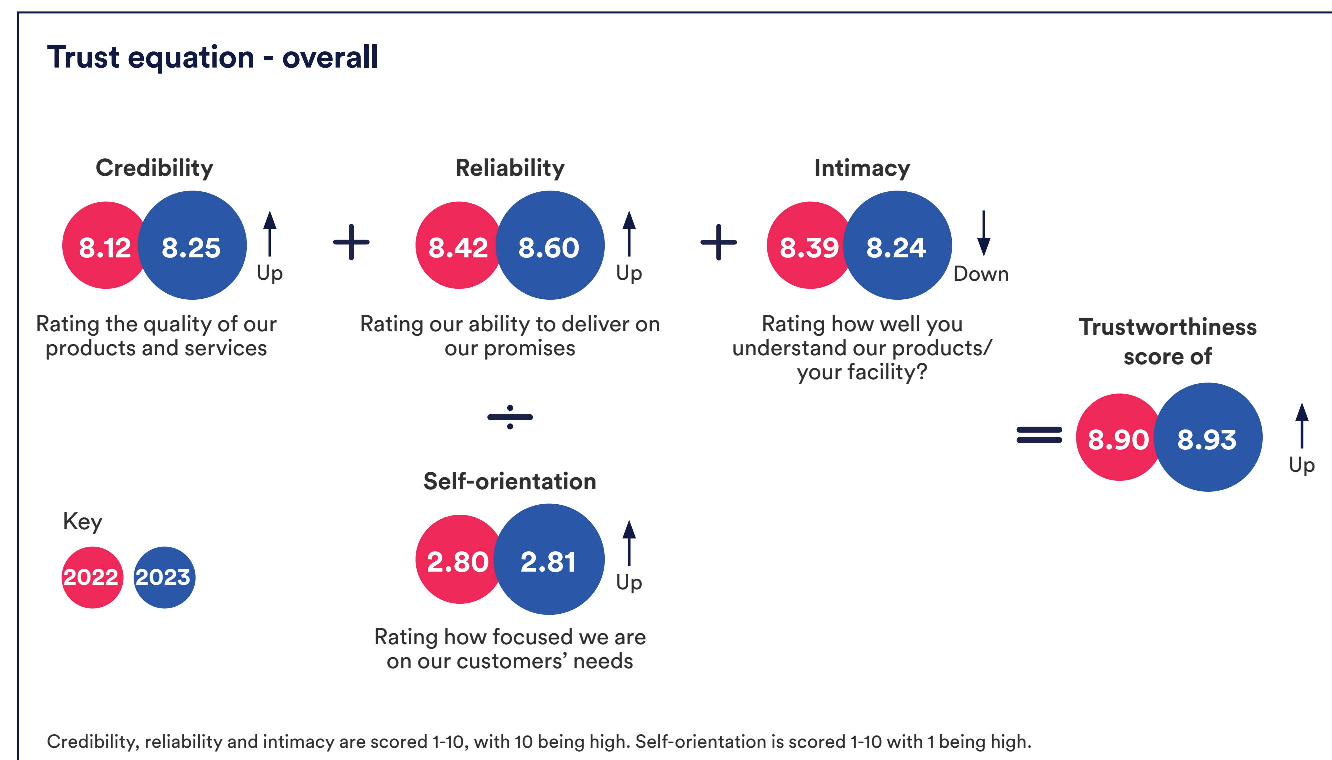
Whilst these measures have no external benchmarks, they provide a useful internal assessment as to how we are doing.

For 2023, our Customer Effort Score was 90%, our Trust Worthiness Score was 8.93 and for Product Suitability, 96% of respondents agreed that our products met their needs.

All these measures are critical in our effort determining the extent to which we are putting our customers' needs first and becoming their bank of choice.

Who we've helped

Sector	Manufacturers	Dealers	Assets	New loans (£m)
Agricultural	15	239	3,116	69
Industrial	1	50	1,035	68
Transport	1	87	9,080	251
Motorhomes and caravans	27	191	8,636	351
Lodges and holiday homes	18	316	3,799	178
Marine	6	57	666	132
Motorcycle	21	220	19,357	110
Specialist cars	-	18	249	17
Wholesale	-	4	6	24
Total	**89**	**1,182**	**45,944**	**1,200**



Supporting greener lending

Throughout 2023, we remained actively engaged in fostering ongoing discussions surrounding the inherent risks and opportunities associated with climate change for our customers. Building upon these efforts, we are excited to announce the upcoming Customer Forum scheduled for Q2 2024. This forum aims to facilitate conversations on optimising energy and carbon accounting strategies.

Throughout the year, we explored how our lending products could further bolster greener asset classes, specifically targeting serialised assets held in stock. Recognising the demand for working capital solutions among distributors, we have been assessing the feasibility of extending our support in this sector. Looking ahead into 2024, we aspire to take significant steps forward and initiate a soft launch into the renewables sector, alongside exploring opportunities in other emerging sectors.

For our employees

We will provide an inclusive, progressive and sustainable environment where our employees thrive

Employee Scorecard

			Our target	2023 actual	2022 actual
Developing our people	Retaining talent	Rolling 12 month average employee retention rate [1]	>90%	92%	81%
	Building a career	Employees taking on a new opportunity in the Company or via colleague referral	>20%	10% of all vacancies were made internally or via colleague referral	20% of all vacancies were made internally or via colleague referral
	Growing our own leaders	Employees stepping in to a leadership role	>30%	25% of our promotions were into leadership roles	35% of our promotions were into leadership roles
	Developing our people	Formal or qualification spend per employee [2]	£1,500 {2024}	£1,028	£1,337
	Employee development hours	Hours of training or development completed by employees [2]	>75 hours per employee (2025)	Implemented a system to measure development hours in 2023	-
Thriving workforce	Best Companies participation	% of employees participating in our annual employee survey	>90%	97%	95%
	Best Companies score	Result of annual employee survey	Retain 2 STAR	740 - 3 STAR	717 - 2 STAR
An inclusive workplace	Board diversity	Diversity composition of board (gender and ethinicity) [3]	50% {2025}	50%	50%
	Diverse workforce	Diversity composition of the workforce [3]	>60% {2024}	54%	51%
	Gender pay gap	Male pay relative to female pay [4]	<30% {2024}	8%	-10%

Text in brackets represents the timeline we expect to achieve the target

1. Employee retention is calculated using voluntary attrition of employees who have passed their probation and does not include retirees or those who leave on medical grounds
2. Based on total headcount at the end of the performance year
3. The Group counts employees who declare one or more of the following diversity characteristics: gender (non-male), sexual orientation (non-heterosexual), ethnicity (non-white British), religious belief (declaring a religion that is non-Christian or similar)
4. % pay difference between median male relative to the median female employee ranked by salary. The Group is not required to publish its gender pay gap in detail as it does not currently have more than 250 employees

Our best is your best

At DF Capital, “Our best is your best” isn’t just a tagline; it’s the essence of our colleague value proposition. Recognised as one of the UK’s best workplaces, our 92% employee retention rate in 2023 speaks volumes about our culture. We empower our team to make a real impact, thrive, and embrace change effortlessly. In early 2024, we earned the prestigious Best Companies 3 Star Accreditation, showcasing our commitment to be one of the best places to work in the UK. Transforming from a One To Watch in 2021 to earning a prestigious 3-star rating today symbolises our unwavering commitment to cultivating an exceptional culture. Being among the top 100 mid-sized companies in the UK is an honour we’re extremely proud of.

Feeling fulfilled – developing our People

We’re committed to nurturing career growth by providing lots of opportunities for personal and professional development. With a flat hierarchy and a dynamic work environment, our colleagues engage in diverse projects, fostering continuous on-the-job learning alongside formal training and qualifications. We are committed to supporting their growth every step of the way.

In 2023, we invested an average of £1,028 per employee in their development and put even more emphasis on seizing internal development opportunities, supported by participation in new projects, and seizing internal opportunities, which we plan to showcase comprehensively through the publication of our learning hours in 2024.

23% of our colleagues successfully completed our in-house continuous improvement learning initiative. Additionally, a commendable 10% of our colleagues earned their yellow, green, or black belts. We also supported the entire commercial function in participating in a sales training academy, with the primary goal of elevating sales performance throughout the firm.

While internal movement opportunities were limited due to high colleague retention rates throughout the year, opportunities were created through new roles rather than traditional backfill opportunities. 10% of our workforce embraced new opportunities, transitioning to different roles within the organisation. Notably, 25% of these transitions led to promotions into leadership positions, supported by our in-house leadership program.

Feeling included - embracing and celebrating our differences

We are dedicated to fostering an inclusive and diverse workplace, where every colleague feels empowered to embrace their authentic selves. We actively promote an environment that celebrates individuality and respects the diversity of our colleagues.

As of 2023, 54% of our workforce exhibited diverse characteristics, surpassing our previous year’s figure of 51%. In 2022, we achieved our 2024 Board diversity goal, achieving a 50% gender split among our Independent Non-executive directors. Monitoring our pay gap, we proudly report an 8% gap at the end of 2023, well below our target of <30%.

We have taken further strides in advancing our Equality, Diversity, and Inclusion (“ED&I”) strategies. We established an ED&I committee, reviewed our current diversity metrics and expanded our focus on diversity and inclusion in the 2023 Best Companies survey. All of which will help us lead a more robust strategy in 2024, with additional ED&I goals anticipated. Our commitment to creating a workplace that values and respects every individual remains unwavering, and we look forward to further progress in the coming year.

Colleagues awarded Lean Awareness Certification

Feeling valued – looking after our People

We don't merely pay lip service to the well-being of our employees; we are deeply committed to their welfare. As a testament to our dedication, we have proudly held accreditation as a Living Wage employer for the past three years, ensuring that our employees receive a basic salary surpassing the Living Minimum Wage. In 2023, we went even further by paying at least 15% above the living wage to all our staff.

Recognising that employee well-being extends beyond monetary compensation, we have implemented a comprehensive approach to support their personal and financial health. Our remuneration arrangements, along with considerations for the challenges posed by the cost of living, are detailed on pages 78-82, showcasing how our employees actively share in our success.

Our ongoing commitment to employee well-being goes beyond short-term initiatives and is a key element of our people strategy. In response to the cost-of-living crisis, we explored ways to improve our colleagues' financial well-being beyond traditional reward structures. Recognising the link between poor financial health and mental and physical challenges, we implemented PayCaptain in early 2023. This dynamic payroll solution empowers colleagues to manage their earnings effectively, promoting savings, offering interest-free emergency cash, and facilitating split payments for crucial monthly expenses. Additionally, we introduced the DF Capital Employee Easy Access Account to encourage and enable colleagues to save for their futures.

Our holistic approach to employee well-being is further underscored by an array of support tools and programmes. While maintaining a full catalogue of intervention services and support mechanisms for our colleagues remains crucial, we recognise the equal significance of prevention initiatives. In light of this, our emphasis in 2024 will be on the implementation of more proactive measures to foster improved well-being. This initiative begins with a thorough review of our mental health support proposition, aiming to enhance our capacity to support better ongoing sustainable mental health practice.

For our communities

For our communities, we will contribute to building stronger communities, wherever we do business

Communities Scorecard			Our target	2023 actual	2022 actual
Giving back	Total raised for charities	Donations made to charity following fund-raising efforts	£5,000	£7,855	£6,583
	Employee volunteering hours	No. of hours spent by employees giving back to their communities [1]	>22.5 hours per employee -2024	14 hours [2]	32 hours [3]

1. In 2023 we transitioned to a new reporting platform for volunteering hours, this saw an impact on reported hours. New system capability in 2024 will allow us to better track volunteering hours
2. Average taken from total headcount figure at the end of 2023
3. Average per month, per employee taken over a 6 month period since launch and annualised

A strong social conscience

Our ongoing commitment to social responsibility reflects our values and underscores our dedication to being a responsible corporate citizen. It's our steadfast commitment to conduct business in a way that aligns with the expectations of regulators, and we remain dedicated to complying with all relevant legislation.

We are also deeply committed to making a positive impact in our local communities. We believe that thriving local communities not only enhance the well-being of our customers and employees but also contribute to the overall success of our business. In the recent Best Companies survey, we received encouraging feedback reflecting our dedication to corporate social responsibility:

- 100% of our colleagues feel DF Capital encourages charitable initiatives.
- 96% of colleagues feel that we have a strong social conscience.
- 93% believe we do enough to protect the environment.

These survey results are great reinforcement in our belief that we are playing a positive and responsible role in society.

Building stronger communities

We work tirelessly to support various charitable and community initiatives throughout the year, driven by the belief that making a positive impact is ingrained in our DNA. Here are some of the impactful initiatives and highlights that showcase our dedication to community building:

- This year, we've increased our paid volunteering leave to four days, providing even more opportunities for our team to establish meaningful connections across the community with causes dear to their hearts.
- Collaborating with OnHand, an all-in-one tool for employee engagement in local volunteering and climate action, we have seen remarkable participation. Since our launch in June 2022, DF Capital colleagues have completed 2,115 missions, contributing over 3,142 hours to giving back to their communities.
- We launched The Mega Giveback; The entire DF Capital workforce volunteered for a collective 350 hours across Manchester at various charities and organisations with the aim of giving back to our communities. Undertaking activities such as planting trees with City of Trees, volunteering at Trussell Trust and independent food banks, holding a CV workshop at The Albion Academy, doing a mass litter pick with Groundwork, transforming JustLife's community garden, looking after the animals and the grounds at Bleakholt Animal Sanctuary, supporting Wood Street Mission at their HQ and mentoring as part of Girl's Out Loud Big Sister programme. Donating food, drinks, animal care products and plants as well.

Supporting those in need

In recognition of the challenging times many individuals and families are facing, we wholeheartedly empathise with those experiencing hardships. As a testament to our commitment to community well-being, we have forged a new partnership with the Trussell Trust. Our people have dedicated 230 hours to support local food banks, alongside our active participation in the Trussell Trust's Reverse Advent Calendar Campaign, aiming to provide essential food parcels to families navigating financial difficulties.

Additionally, in our continued support for Wood Street Mission, we stepped up our efforts to make a meaningful impact. Through toy collections, a successful fundraising initiative that raised almost £1,000 and over 90 hours of volunteering at their headquarters, aimed to alleviate the pressure on struggling local families.

Supporting social mobility

In 2023, we were thrilled to launch our partnership with The Manchester College, the largest further education college in the UK, marking a significant step in our commitment to fostering social mobility. This collaboration involved the delivery of a T-Level programme in Finance, where we actively engaged with students through placements, workplace safaris, and co-delivery of the curriculum. As a business, we recognise the importance of supporting initiatives that bridge the gap between education and industry needs, ultimately preparing students for skilled employment or further academic pursuits.

Our dedication to social impact extends beyond this partnership, as we proudly launched a collaboration with Girls Out Loud through the Big Sister program, focusing on empowering girls to make informed life choices. Additionally, our ongoing support for CodeYourFuture is another example of our dedication to providing opportunities for individuals from deprived backgrounds to thrive in the tech industry, showcasing our commitment and support to social inclusion and mobility.

CodeYourFuture at the DF Capital offices

Fundraising

We recognise that beyond outreach initiatives there remains a crucial need for fundraising efforts. So, we have been busy this year, with organised bake-offs supporting charities such as The Proud Trust, Macmillan, and The Pankhurst Trust. Event nights, including macrame hanging plant-pot holders, a women's world cup sweepstake, a taskmaster evening, and wreath making, all contributing to supporting City of Trees, Trussell Trust, and Save the Children. Our collective effort in Movement May resulted in covering an impressive 8,619.25 km, symbolically reaching from our Manchester Office to the top of Mount Everest, supporting Manchester City of Trees along the way.

2024 sees even more fundraising events in the calendar, with just as much fun thrown in!

We want to do more

In 2024, we aim to continue our focus on outreach, utilising our time, skills, and knowledge to support our local community and providing our colleagues with the opportunity and time to give back to causes close to them.

Mega Giveback volunteering

For the environment

We will play our part in the transition towards a climate friendly world

Environment Scorecard

			Our target	2023 actual	2022 actual
Managing our own carbon impact	Carbon footprint	The impact of our business on the environment	Determine our net zero target roadmap by 2026	528.7 tCOe[1] or 4.2 tCO_2e per employee[2]	141.4 tCO_2e or 1.26 tCO_2e per employee[3]
	Employee participation in carbon reduction initiatives	Employees participating in electric vehicle and bicycle salary sacrifice schemes, electric vehicle company car benefit or using season ticket loans for public transport	>15%	25%[4]	25%[5]

1. tCO_2e = tonnes of CO_2 emissions
2. Intensity metric based on headcount at the end of 2023. See breakdown in carbon emissions disclosures section on page 37
3. We have updated the 2022 figure following implementation of Normative carbon accounting platform
4. Based on total headcount at the end of 2023
5. Based on total headcount at the end of 2022

NB: Our total emissions have witnessed a notable increase since 2022, attributed to the expansion of disclosure categories during the reporting period from 2022 to 2023

Supporting better travel

Reducing our carbon footprint remains a top priority, recognising that travel and commuting significantly contribute to environmental impact. In our commitment to sustainability, we extend our entire fleet of electric company cars to field-based colleagues, enabling increased customer outreach while minimising our carbon footprint.

For our office-based colleagues, we actively promote engagement in low-carbon travel initiatives. Our Electric Vehicle salary sacrifice scheme, gives our colleagues access to more affordable green commuting, and we were delighted to expand this offering from just new to 'nearly-new' vehicles at the end of last year to our workforce. Additionally, we facilitate sustainable commuting through offerings such as season ticket loans for public transport, a Cycle-to-work scheme, and support for hybrid working arrangements.

Currently, 23% of our workforce actively embraces these green initiatives, showcasing our collective dedication to fostering a more sustainable future. Together, we strive to make conscientious choices that not only benefit our organisation but also contribute positively to the broader environmental landscape.

Supporting charities to reduce our carbon footprint

Our team is deeply committed to championing environmental causes, particularly those centred around addressing climate change. Over the past three years, we have actively supported the City of Trees initiative through a combination of fundraising, volunteer efforts, and membership in the 100 Trees Club. City of Trees is at the forefront of promoting a green recovery and combatting the climate crisis by focusing on tree planting and woodland restoration for the benefit of both the people and wildlife of Greater Manchester. We take pride in being integral to a broader movement that spans various communities, organisations, and businesses, all united by the common goal of planting a tree for every citizen in Greater Manchester. In the year 2023 alone, our collective contribution amounted to almost 40 volunteered hours dedicated to tree planting activities.

Normative

Understanding our own impact

In 2023, we partnered with Normative to implement a carbon accounting platform, which marked a pivotal moment in understanding and mitigating our environmental impact. In line with the Streamlined Energy and Carbon Reporting ("SECR") requirements our energy and emissions disclosures now include Scope 1, Scope 2, and various categories under Scope 3, reflecting a comprehensive understanding that aids us in defining strategies and timelines for achieving our net-zero aspirations.

Our total emissions have witnessed a notable increase since 2022, attributed to the expansion of disclosure categories during the reporting period from 2022 to 2023. We commit to reporting all emissions, including financed emissions, to be incorporated into our reporting framework by the end of 2026, as outlined in our roadmap. This commitment forms the foundation for establishing sustainable targets in line with our reduction-first strategy. Collaborating closely with climate advisors and specialists from Normative, we aim to define a net-zero roadmap by 2026, outlining clear targets, milestones, and regular assessments.

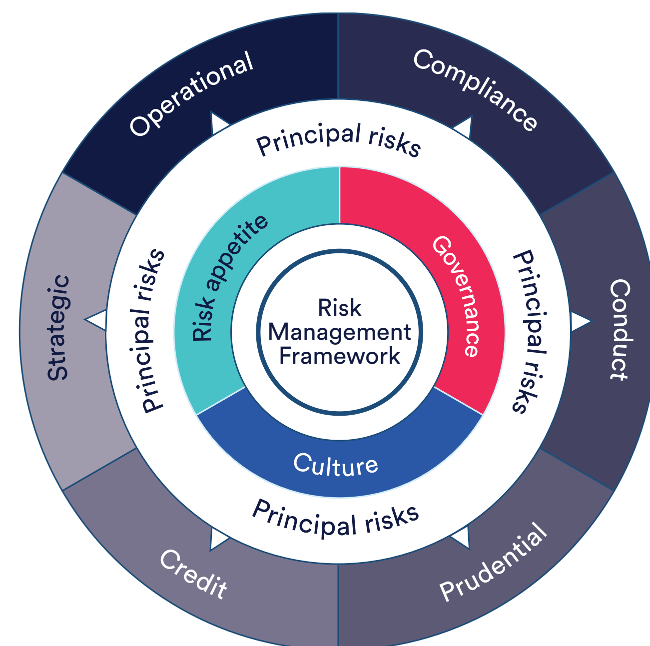
Energy and Emissions data

	2023		2022[1]		
	tCO_2e	%	tCO_2e	%	Assumptions
Scope 1	**0**	**0%**	**0**	**0%**	Scope 1 is 0 as all direct owned assets are EVs. EVs are carbon-neutral during operation, due to their absence of greenhouse gas emissions while in use, a contrast to traditional vehicles that rely on fossil fuels, emitting GHGs. Emissions from charging are deferred to scope 2.
Scope 2	**56.7**	**10.7%**	**28.5**	**20.2%**	Location-based. Scope 2 intensity metric 2023: 0.45 tCO_2e per employee and 2022: 0.26 tCO_2e
Electricity (EV Charging)	22.7	40%	n/a	n/a	Electricity related with charging of EVs (off-site). Calculated using miles driven, car type and size and the UK grid average energy mix(inc 5% renewable). Energy use 2023: 102,426 kWh and 2022: Not applicable
Electricity (Manchester office)	33.9	59.8%	28.5	100%	Provided by electricity supplier; Unify Energy. With a 38% renewable energy mix (as of end of 2023). Energy use 2023: 153,312 kWh and 2022: 128,309 kWh
Scope 3	**472**	**89.3%**	**112.9**	**79.8%**	Scope 3 intensity metric 2023: 3.75 tCO_2e and 2022: 1 tCO_2e
Purchased good & services	244.4	51.8%	n/a	n/a	Calculated using supplier and cost and supplier GHG where available.
Capital goods & services	95.4	20.2%	n/a	n/a	Calculated using supplier and cost
Employee commuting	59.2	12.5%	n/a	n/a	Calculated for all office and remote workers by including average weekly commute and work from home days
Business Travel	55.5	11.8%	104.1	75.4%	All expensed business travel including taxis, trams, hire cars, car allowances and hotel stays. Where appropriate car and fuel types included in calculations, where unknown 'unknown average car type' has been used
Fuel & Energy	17.2	3.6%	8.8	6.4%	Relates to the losses during the transmission and distribution of energy to our facilities, categorised as Fuel and Energy Related Activities. This effectively accounts for any electricity that is lost during the process of transporting it
Upstream transportation and distribution	0.3	0.1%	n/a	n/a	Expenses only in relation to courier, postage and transport of goods and services supplied to the Group
Total	**528.7**		**141.4**		

1. 2022 restated to a common and comparable basis following implementation of our carbon accounting platform. We work with Normative, a carbon accounting engine with a deep database of emission factors, to measure our carbon emissions in accordance with the Greenhouse Gas Protocol. This data is applicable as of 1.03.2024.

Risk Management

Risk Management Framework



DF Capital's Risk Management Framework ("RMF") creates a structured approach and common language to support the day-to-day management of risks across the firm. The framework allows us to efficiently and effectively identify, measure, monitor and control risks in line with our governance, culture and risk appetite.

Governance

DF Capital has a well-defined governance accountability framework across the firm and has put in place structures to ensure the effective management of DF Capital's operations to deliver against its strategic plan and risk appetite. There is a formal overarching governance framework document which outlines the principles of corporate governance followed by the Group, in line with corporate governance best practice.

This document specifies the distribution of roles and responsibilities between the Board, executive committees, functions, and individuals. The aim is to create clear accountability and responsibilities, whilst facilitating effective decision making. The Board has adopted the QCA Code of Corporate Governance, which is an industry code designed for smaller listed companies. However, the Group is committed to maintaining high standards of corporate governance and will take account of recommendations in the UK Corporate Governance Code and endeavour to adopt those recommendations as far as possible, further details on which can be found in the Corporate Governance section of this report.

Culture

Culture is a key component of effective risk management. Our Code of Ethics ("CoE") defines our high-level corporate values (aligned to the DF Capital brand values) and provides structure and guidance for decision making. It is consistent with and complements the regulations and control environment under which the Group operates.

The Board and management are committed to creating an effective risk culture across the firm and to that end assess the effectiveness of DF Capital's risk culture on a regular basis. Since 2021 we have participated in the Best Companies To Work For survey, which provided us with insight on employee engagement and the culture across the firm.

Risk appetite

The Board has defined a risk appetite which sets the context and the boundaries for the Group's activities and controls. It establishes the quantum and type of risks the Group is willing to accept. There is a formal framework in place which establishes the granularity, requirement and responsibilies for setting and allocating the risk appetite of DF Capital across the firm to support its strategic vision. This framework quantifies risk appetite through a number of risk metrics and limits which are monitored by the Group on an ongoing basis.

The Board owns and reviews the RMF and its three overarching components – governance, culture, and risk appetite – at least annually. We then have more granular policies in place which underpin the effective management of risk and are subject to regular review by relevant Board or management committees.

Three lines of defence

The risk management model established at DF Capital follows a 'Three Lines of Defence' ("3LOD") model. This approach ensures a clear delineation of responsibilities between risk ownership, risk oversight and independent assurance.

The 3LOD model is important as it provides clarity for individuals and functions about their role, their responsibilities and accountabilities, and is a core component of the RMF. The emphasis on the responsibilities of each line of defence is as follows:

First line of defence ("1LOD")

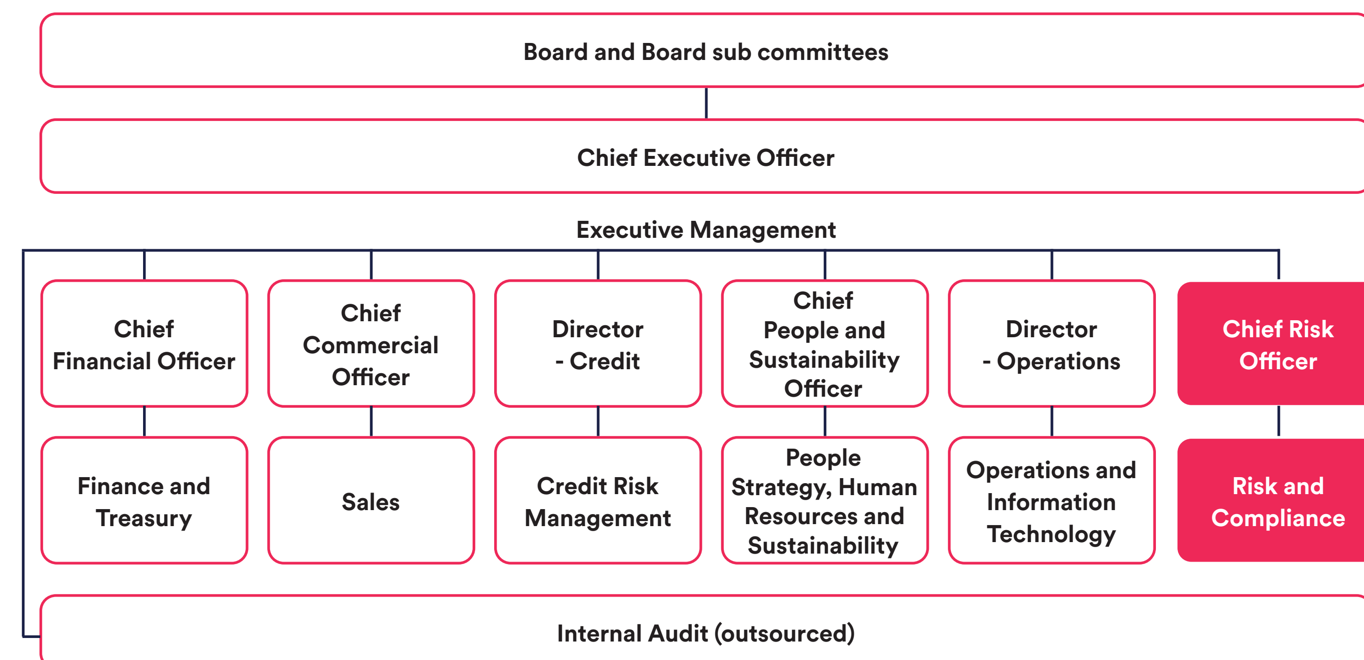
Business lines, Credit, Finance, Treasury, and Operations functions act as the first line of defence and are responsible for identifying, assessing, mitigating, managing and reporting risk.

Second line of defence ("2LOD")

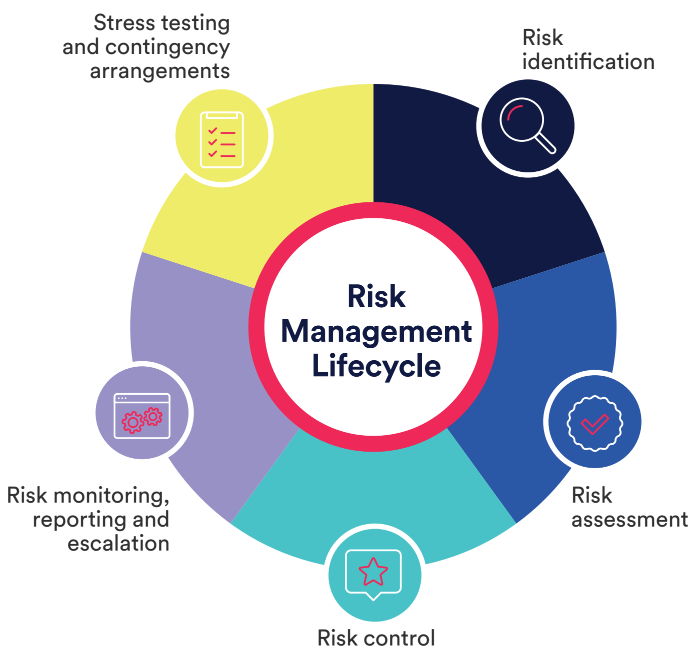
Risk and Compliance functions act as the second line of defence and provide oversight, effective challenge, and technical advice to the first line to ensure risks are identified and controlled effectively.

Third line of defence

The third line of defence is provided by Internal Audit which independently reviews the design, implementation, and effectiveness of the first and second lines.



Risk Management Lifecycle



Taking and managing risk is fundamental to our business. DF Capital's risk strategy is based upon a proactive and continuous approach to the management of all risks faced by the Group. Ownership of risk and the responsibilities for risk management and risk oversight are allocated throughout the Group, following the 3LOD model. This risk management approach ensures that both risk taking and management are aligned to our business model and strategy. Risk frameworks, policies, procedures as well as department and individual job descriptions operationalise our approach to risk management. Employees have risk-based objectives incorporated into their personal objectives and these form part of their annual appraisal. The management of risk is undertaken using clearly defined limits, in line with risk appetite, which are measured, monitored, and managed through a robust control environment, risk governance structure and risk aware culture. The following pages summarise the core stages of the continuous lifecycle of risk management employed by the Group.

Risk identification

Risk identification involves continuously identifying risks that might occur in connection with the Group's business (e.g. changes in services and products, changes in the legislation, market developments) and have a detrimental impact upon business objectives, customers, staff or the Group's reputation. The identification process takes into account the principal risks described within the RMF. The identification process also considers new and emerging risks which might not already be sufficiently covered by these principal risks and existing controls.

Risk workshops, deep-dives, projects and strategic planning, horizon scanning and stress testing exercises are common points where risk identification will always be incorporated. Risk events are also used as a risk identification tool. This is in addition to the regular committee and department meetings where risk horizon scanning is a standing agenda item. The identification process will consider risks which may be emerging or more remote, to ensure that if these risks become more likely to occur then there is already recognition of the Group's exposure to such risks.

Risk assessment

This involves assessing the identified risks in terms of the probability and potential impact on the Group. The risk measurement process includes evaluations of existing controls to determine consequences and the likelihood of the risk, as well as assessing estimated levels of exposure.

Risks will be scored for their inherent risk. This involves defining the most likely scenario for the event, determining the total exposure (the product of the impact and likelihood) for the risk before controls are taken into account. The risk is then assessed against the controls that are in place to arrive at a quantification of residual risk.

Once the assessment of risks and controls has been completed, if the risk profile is considered too high, then action will be taken to reduce, share or avoid the risk. Typically, the means to reducing the risk is through tightening and/or improving controls and limits. The assessment process therefore considers the existing risk appetite limits.

Risk control

DF Capital operates a control environment governed by its principal risk framework, policies, procedures, and systems which are monitored by the risk and compliance function, through the 3LOD model. These risk controls are reported up through oversight Board and executive level risk committees as outlined in the Corporate Governance Framework. There is a schedule in place which maps out each framework and policy across our principal risks, with respective document owner, the Senior Management Function ("SMF") role-holder responsible, and approval committee.

An effective Control Environment is a core part of the RMF and is critical to the safe and sound performance of DF Capital and to the management of risk. A successful system of internal controls improves the reliability and effectiveness of operations, supports the strategic objectives, and helps to ensure compliance with external rules and regulations.

Risk monitoring, reporting and escalation

Risk metrics

Reporting covering the metrics underpinning all principal risks, including movements in risk exposures and supporting commentary, is provided to Board and management risk committees at each regular meeting. This is in addition to the monitoring of any specific risks at the risk committees below the Executive Risk Committee ("ERC") (i.e. ALCO and Credit Committee). It is also in addition to more frequent monitoring of certain risk metrics (e.g. daily liquidity reporting).

A Red, Amber, Green ("RAG") status is used to measure risk metric performance. However, metric performance is supplemented with commentary and qualitative judgement to ensure there is a balanced and meaningful view of performance relating to the Group's risk appetite. Where any risk appetite trigger or limit has or may be breached, this will be escalated in accordance with the defined escalation process set out in the Risk Appetite Framework.

Enterprise-wide risk dashboard

A report showing the main enterprise-wide key and emerging risks is discussed at Board and management risk committees on a quarterly basis. This exercise allows the committee to consider the top risks being faced by DF Capital alongside the associated risk mitigation actions from a top-down perspective.

External environment

A number of macroeconomic and financial metrics are reported to the ERC and BRC at each meeting. These include statistics specific to the sectors where DF Capital operates. It is complemented by commentary covering key publications (e.g. Bank of England reports).

Regulatory monitor

The bank maintains a regulatory monitor which lists all changes in regulation and new regulations that can impact DF Capital. This monitor identifies the actions required by each function in response to the new or changed regulation. The regulatory monitor is presented to executive and Board risk committees.

Stress testing and contingency arrangements

Stress testing

Stress testing is a very important risk management tool, with specific approaches documented for the major regulatory exercises in the ICAAP and ILAAP, used to determine the adequacy of capital and liquidity in relation to the risks being run. Stress testing aims to improve the Board and management's understanding of the key risks, scenarios and sensitivities that may adversely impact the financial or operational position of DF Capital.

Stress testing is used to assess the adequacy of DF Capital's financial resources, the potential management actions available to mitigate the effect of adverse events, identify any gaps in DF Capital's RMF (such as potential weaknesses in controls), and provide input into DF Capital's risk appetite setting.

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process ("ICAAP") is an assessment of DF Capital's total capital requirements based on its risk profile under normal and stressed operating conditions, incorporating all material risks and is based on active cooperation between Finance, Treasury, and the business areas, led by the CFO with review and challenge performed by Risk.

The CFO has executive responsibility for the ICAAP which is prepared at least annually but more frequent stresses can be run if internal or external factors change materially.

Individual Liquidity Adequacy Assessment Process

The Individual Liquidity Adequacy Assessment ("ILAAP") is an assessment of DF Capital's funding and liquidity position under normal and stressed conditions. The ILAAP is used to inform management and the Board of the ongoing assessment and quantification of liquidity risk and the manner in which it is measured, monitored, controlled, and mitigated.

The CFO has executive responsibility for the ILAAP, which is prepared on an annual basis, with review and challenge of the ILAAP performed by Risk. More frequent ILAAP stresses can be run if external or internal factors change materially.

Recovery Plan and Resolution Pack

The Recovery plan considers the bank's capacity to return to viability after a severe shock. The Recovery plan sets out the governance for developing and executing recovery options and protocols to ensure that selected options can be executed at speed.

The Resolution Pack provides regulatory authorities with information and analysis relating to DF Capital's business, organisation, and structure to enable them to carry out an orderly resolution, if required.

The Recovery Plan and Resolution Pack are owned by the CFO and supported by the CRO.

Contingency arrangements

Contingency plans exist for unexpected severe events, or scenarios when the risk profile of the Group could go beyond acceptable levels, including the Board's risk appetite. In addition to the ICAAP, ILAAP, and Recovery Plan, the Group also prepares a Solvent Wind-Down Plan ("SWD") which considers a more extreme stress scenario where the Group becomes financially unviable. The plan evidences that in such a scenario the business could be wound down in a solvent and orderly manner. The CFO has executive responsibility for the SWD, which is prepared on an annual basis, with review and challenge of the SWD led by the CRO.

Contingency plans also exist for severe risk scenarios of an operational nature. Incident management plans are in place to cover such events, supported by Business Continuity Plans ("BCP") and Disaster Recovery ("DR") to deal with more severe business interruption scenarios. These are owned by the Director of Operations with review and challenge led by the CRO.

Risk & Control Self-Assessment ("RCSA")

All risks need to be included within the RCSA, reflecting the risk identification, assessment, and controls in place. The inclusion of all risks in the RCSA helps to identify risk concentrations when underlying risks are aggregated. The RCSA is reviewed by relevant Board and executive level risk committees on a regular basis to ensure that any rising, new or emerging risks are identified and monitored.

Any risks which are 'accepted' but are outside of risk appetite will need to be formally accepted by the relevant management or Board committee as part of the 'Risk Acceptance' process defined in the RCSA framework.

Risk training

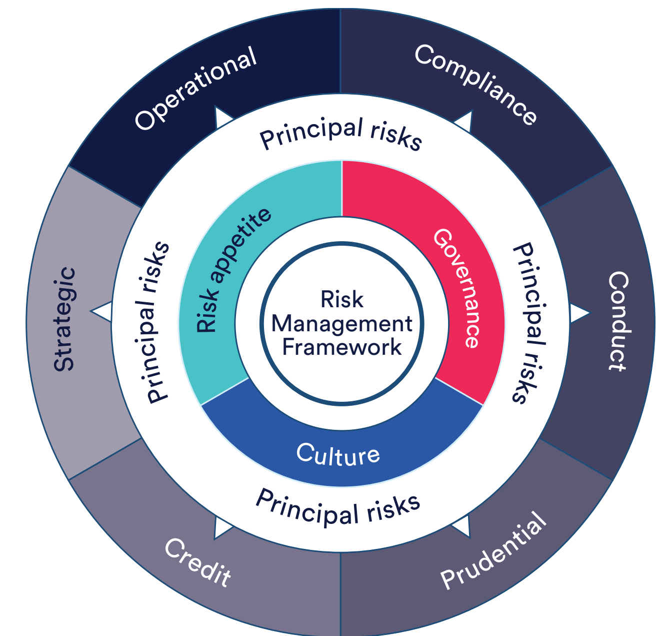
All employees are required to complete risk management and compliance training as part of new joiner training as well as regular refreshers thereafter. Risk and compliance training may vary depending on the role of the staff member (e.g. SMF role holder, Certified Function, functional manager, or customer- facing role) as well as the business or central function performed. Risk and compliance, our 2LOD, are responsible for ensuring appropriate risk and compliance training is delivered across the organisation, with support from the People team. All training will continuously look to reinforce the 3LOD risk model principles as well as the core components of the Group's RMF – Governance, Culture, and Risk Appetite.

Bailey Endeavour

Principal Risks

Based on the bank'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 run across many or all of these risk types. We have chosen at this stage to not pull them out individually, but instead to manage them across the principal risks framework. A good example of this are the risks created by climate change. Whilst these risks may crystallise in full over longer-time horizons, they are already becoming apparent in our business operations and cut across more than one of the principal risk categories below.



Risk type	Principal risks
Operational risk	People; Internal fraud; External fraud; Model; Third party; Business continuity; Physical security and safety; Information security (including cyber); Technology; Data management; Transaction execution; Change management
Compliance risk	Legal; Regulatory compliance; Statutory reporting and tax; Financial crime

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 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 organisation 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 customer-specific risk assessments, compliance monitoring plan, ongoing monitoring of risk metrics and limits, customer risk assessments, regulatory compliance training, Executive Risk Committee oversight.

Key risk mitigation tools: compliance policies, regulatory monitor, enterprise-wide compliance and customer-specific risk assessments, compliance monitoring plan, ongoing monitoring of risk metrics and limits, customer risk assessments, regulatory compliance training, Executive Risk Committee oversight

Risk type	Principal risks

Conduct risk

Customer conduct

Market conduct

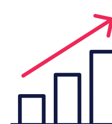
Improper behaviour

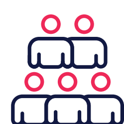
We define **Conduct risk** as the risk of detriment caused to DF Capital's customers or financial markets due to inappropriate execution of its business activities and processes, including the sale of unsuitable products and inappropriate behaviours.

The Conduct Risk Framework outlines our approach for ensuring good customer outcomes in line with the New Consumer Duty. 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, customer value assessment, key controls testing, Code of Ethics, conduct risk training and Executive Risk Committee oversight

Credit risk


Client default


Credit concentration

Repurchase

Security

Counterparty

Credit risk is the risk of financial loss arising from a client, customer or counterparty failing to meet their financial obligations to DF Capital or repay in accordance with agreed terms. Credit Risk is considered the most significant risk faced by DF Capital and can be broken down into the following categories:

- **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 manufacturer 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 Group that is expected, leading to unanticipated losses. This includes a sale out of trust.
- **Counterparty risk**: The failure of a bank counterparty or derivative provider.

A credit framework and policies are in place to manage DF Capital's credit risk exposure, covering the roles and responsibilities across the Company's lending and investment activities.

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

Risk type	Principal risks

Prudential risk

Capital

Market risk (incl. interest rate risk)

Funding and liquidity

Prudential risk covers three financial risks relating to the bank maintaining sufficient resources to ensure it is financially resilient.

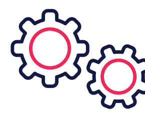
- **Funding and liquidity risk:** The risk that DF Capital is not able to meet its financial obligations as they fall due or that it does not have the appropriate tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that DF Capital has an insufficient amount or quality of capital to support the regulatory requirements of its business activities through normal and stressed conditions.
- **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.

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, ALCO and Executive Risk Committee oversight

Strategic risk

Strategic planning


Execution

Projects

External

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 through poor strategic decisions, improper implementation of business strategies or from external events.

The level 2 principal risks which fall under this category include:

- **Strategic planning risk:** The risk of strategic plans being unachievable or unrealistic.
- **Execution risk:** The risk of failing to execute the bank's strategy and failing to deliver key strategic initiatives required to meet the financial and commercial targets of the bank.
- **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.

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 bank will need to hold in support of its strategic and financial plans.

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 micro-economic environment, change management framework

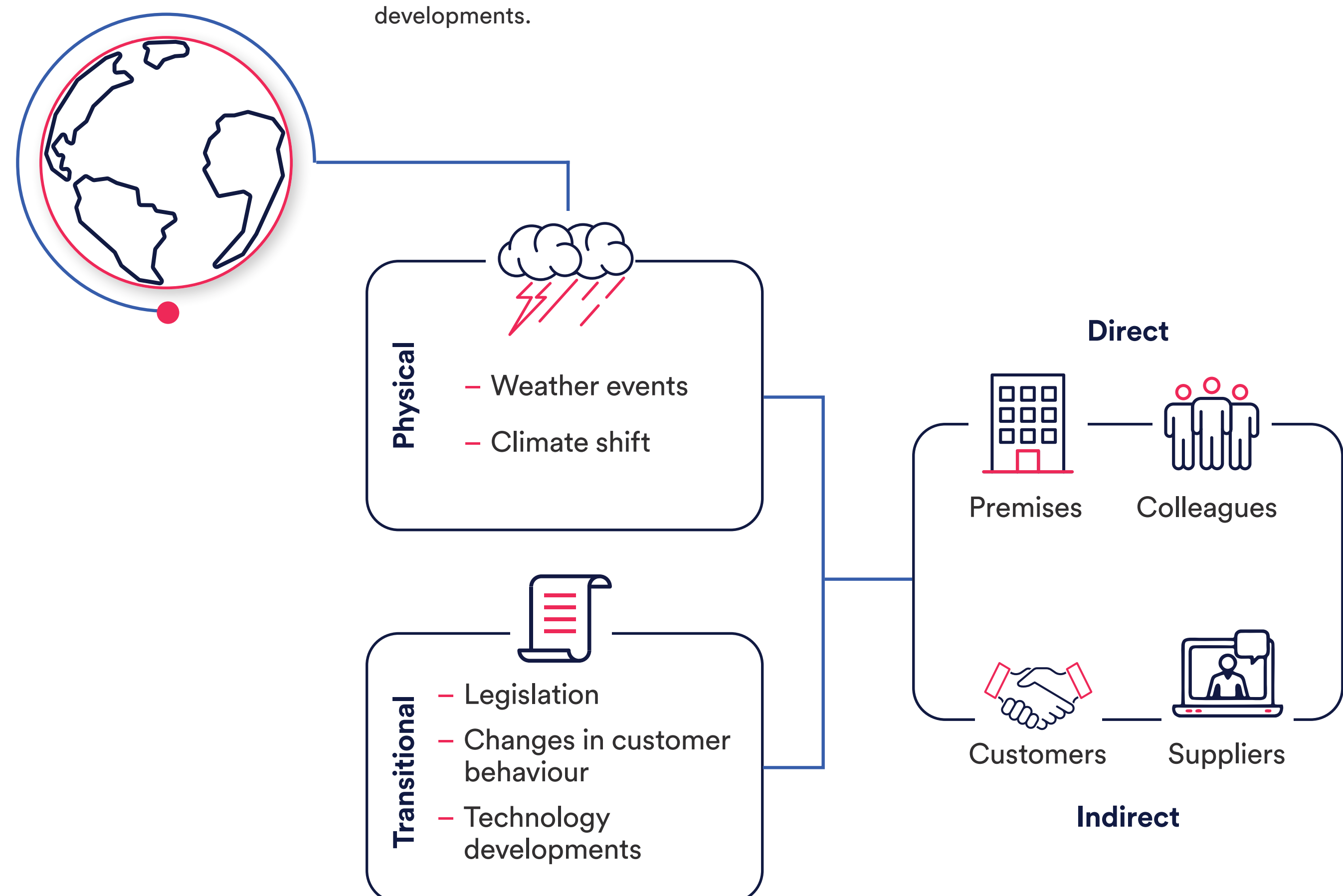
Climate Change Risks

Since 2020 DF Capital has been developing its approach to managing the risks arising from climate change. The framework in place at DF Capital and summarised in this section is based on Climate Financial Risk Forum ("CFRF") guidance. Our approach will continue to evolve over time in line with developments in regulatory and industry best practices and commensurate to the firm's exposures to climate-related risks.

Definition, scope and assessment

The risks arising from climate change cut across a number of, if not all of the firm's principal risks. As such, rather than designating climate change risk as a principal risk, we consider it as a key cross-cutting risk. In line with industry and regulatory standards, our management approach uses the categorisation of climate-related risks into two types – transition and physical risks – which can be summarised as follows based on CFRF guidance:

- Physical risks from climate change can arise from specific weather events (such as heatwaves, floods, wildfires, and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise, and rising mean temperatures).
- Transition risks may arise from the process of adjustment towards a net-zero carbon economy, such as the impact of new legislation, changes in customer or technological developments.



Climate-related risk touches all parts of our business and operations. The Group is exposed to climate change directly – e.g. premises and staff – and indirectly – e.g. customers and suppliers. Given this very widespread scope, it is crucial that the Group regularly identifies and assesses the climate-related risks it is most exposed to. The first risk identification and assessment exercise was conducted in 2021. We have now embedded climate risk analysis into our frameworks, and now monitor physical and transitional risks on a monthly basis. We also review the climate risk RCSAs at least annually. Climate risks and opportunities are now carried out as part of the annual strategic planning round. We have reviewed the IFRS reporting standards and will consider how to implement these once they have flowed through to the UK standards.

Risk management and governance arrangements

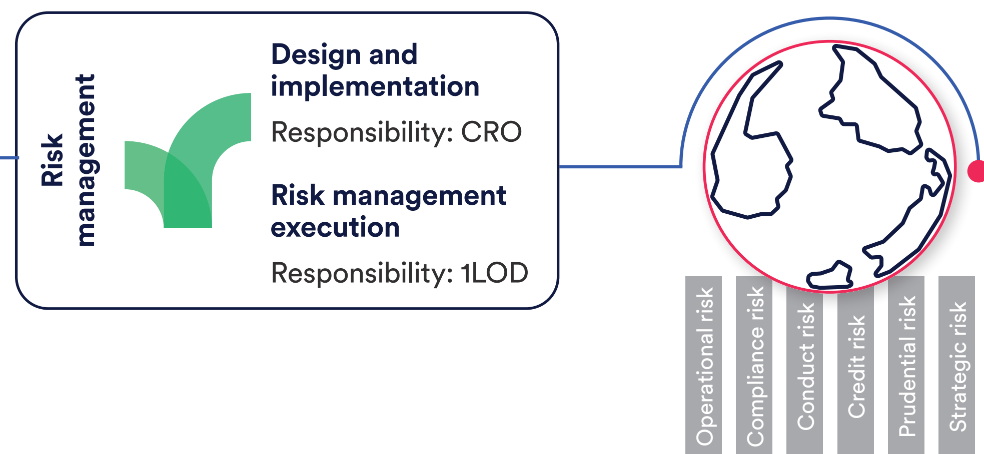
Senior responsibility for implementing and continuously developing an approach to managing the risks from climate change has been allocated to the CRO. In line with the firm's 3LOD model, the execution of the risk management of those risks sits with the relevant 1LOD senior executives (e.g. climate-related credit risks are under the responsibility of the Director - Credit).

Risk management oversight is performed by the 2LOD Risk and Compliance team. This oversight is shared across the 2LOD team for the respective risk areas (e.g., credit risk elements will be overseen by Head of Credit Risk), whilst compliance with the PRA's relevant rules and expectations is led by the Head of Prudential Risk.

Governance oversight of climate-related risks sits within the Company's existing risk committees, in line with the committee coverage of principal risks. This means that ERC and BRC have overall oversight responsibility over all climate-related risk management at Executive and Board level, respectively. This is supported by ERC's subcommittees, Oversight Credit Committee ("OCC") and ALCO, for credit- and prudential-risk-related climate risks, respectively. The Bank's Corporate Governance Framework is described in detail in the next section of the Annual Report.

Equally, existing Risk Frameworks, Policies and Procedures incorporate the specific risk controls associated with climate change risks where relevant.

Scenario analysis (or stress testing) for climate change risks is performed as part of the Bank's ICAAP, following the defined ICAAP production and governance process.



Enterprise-wide key and emerging risks

Risk title Principal Risks which are primarily impacted	Risk overview and mitigation actions
Macro-economic risks **Credit, Prudential, Strategic** High Risk assessment	Given the Bank of England's response to the inflation of 2022 and continuing poor economc performance at the global level, the operating environment in 2023 has been challenging for UK companies. Shortly after year end, with the base rate still set at 5.25%, the ONS confirmed that economy was in technical recesion through the second half of the year. Whilst there are signs in higher-frequency data that the economy is likely to gather pace in the first half of 2024, the consensus seems to be that the recovery will be disappointingly slow. Insolvencies, which tend to peak 6-12 months post-recession have started to increase markedly from the Covid lows. Therefore, although we believe the credit quality of the portfolio to be robust, we still regard the macro-economic risks as elevated. We also note that the global geopolitical climate remains difficult, with no end in sight to the current conflict between Russia and Ukraine and major instability the middle east, both in terms of the direct Israel-Hamas conflict and the activity of Houthi rebels. Such events have the potential to escalate in a way that could potentially cause further supply side shocks, meaning that a renewed bout of inflation and supply chain issues cannot be ruled out. We have noted more challenging trading conditions for customers in some of our sectors, putting pressure on volumes. Whilst we have a reasonable degree of optimism about the conditions in 2024, and the consensus forecast is for a fall in rates to start in the reasonably near term, we will continue to position ourselves carefully. We remain mindful that whilst a fall in rates is positive for credit risk, it can put net interest margins under pressure, especially where the fall in base rate may be rapid.
Assets sold out of trust ("SOT") & credit concentration risk **Credit, Operational** Moderate Risk assessment	The Group is exposed to the risk that borrowers sell financed assets and do not repay their loans (a situation termed as 'sold out of trust' or "SOT"), leaving the bank in an un/under-secured position. In some cases, the sale of an asset out of trust can take place as a means of intentional fraud. Credit concentration risk is another key structural source of credit risk for the Group given its still relatively concentrated loan book on a single-name basis. Both of these areas are central to the management of credit risk at DF Capital. Effective risk management ensures due focus is targeted at larger and higher risk dealers. Our focus on portfolio management and asset audits remains a key component of risk management at DF Capital. We smartly and efficiently prioritise physical asset audits of various customer sites across the country using a risk sensitive model. We use an innovative remote audit solution ('DF Check') which allows dealers to conduct their own audits, subject to a risk-based model. In addition, we monitor early-warning risk indicators (such as asset turn levels) which allow us to take pre-emptive action to mitigate this risk, or, if necessary, take steps swiftly towards asset recovery. Challenging economic conditions typically exacerbate our exposure to SOT risks due to the increased likelihood of customers facing financial difficulties and therefore struggling to repay assets in line with contractual terms. This risk is therefore heightened in the current environment.

Risk title Principal Risks which are primarily impacted	Risk overview and mitigation actions
Operational execution and change **Operational, Conduct** Moderate Risk assessment	As a young, growing firm we remain exposed to the operational risks arising from a fast pace of change in systems, processes, and people; a significant, albeit declining reliance on 'manual' back-office processes; and, conversely, the technological rollout of process automation. The bank's framework for operational risk management has continued to mature, including recent and ongoing enhancements to the Risk and Control Self Assessment ("RCSA") and Operational Resilience frameworks. The Group regularly reviews its change and technology roadmap, which currently include a mix of investments in customer-facing and internal systems and processes. This is supported by regular business assurance work, independent 2LOD risk and compliance reviews, risk event reporting including root cause analysis, as well as horizon scanning of emerging internal and external risks. Where DF Capital follows a cloud-based service and infrastructure model, adopting Software-as-a-Service ("SaaS") technology from a number of suppliers, these are reviewed and contracted under appropriate due diligence and after proportionate risk assessments, ensuring equivalent levels of risk management comparable to internal services.
Cyber risk **Operational, Conduct** Moderate Risk assessment	As with any financial institution, DF Capital is exposed to cyber risk on both internal and external facing systems. A cyber-attack impacting our core operating and banking systems could have a number of severe implications such as inability to conduct business operations or loss of customer data. Cyber deficiencies can also often give rise to severe reputational damage. Information and Cyber security therefore remains a critical element in keeping DF Capital systems and data safe. DF Capital aligns its controls against the National Cyber Security Centre ("NCSC") "Top 10 Steps to Cyber Security", the National Institute of Standards and Technology ("NIST") "Cybersecurity Framework" and the ISO 27001 standards. External parties are often engaged to support InfoSec control development and independent testing, such as system penetration tests. 2023 saw continued improvements to vulnerability management as well as ransomware controls and backup methods. Plans for future business growth are supported by the close involvement of IT and InfoSec teams, supported by external experts where required.

Risk title Principal Risks which are primarily impacted	**Risk overview and mitigation actions**
Near-term growth plan **Prudential, Strategic** Moderate Risk assessment	The challenging and uncertain macroeconomic environment, with both recession and financial sector risks as described above, continues to pose downside risks to the successful achievement of the firm's near-term strategic objectives and growth plans. The rollout of new product, geographical expansion and other initiatives is ongoing, aimed at diversifying the business model, increasing growth options and complementing the continued expansion of the Company's existing core products. Growth targets in current products and sectors are backed by a pipeline of existing and new manufacturer relationships. Delivery against this pipeline is monitored regularly through various commercial KPIs, reported up and down the Group. Looking ahead, the trajectory and speed of future interest rate movements carries risks to the Company's net interest margin, which are managed and hedged in line with the bank's interest rate risk appetite. The two main risk channels for the Group, both of which are currently seen as unlikely scenarios, would be a very rapid decline in interest rates or a material spread opening up between the UK base rate and savings rates. The Group manages and hedges interest rate risk to stress scenarios in line with an agreed risk appetite.
Climate change **Credit, Operational, Reputational** Low Risk assessment	Through its commercial lending business, the Group is exposed to both physical and transition climate change risks. On the physical risks side, climate events are likely to become a source of losses for the Group in the coming decades, via damage to the physical assets funded by DF Capital (e.g. due to flood damage). On the transition risks side, it is evident that some industry segments in which DF Capital operates are transitioning at pace towards electric-powered vehicles, and the Group is proudly involved in supporting that transition with many of its dealer customers. Risks may arise where legacy non-electric assets become less attractive and devalue as a result. As covered above, careful credit risk and portfolio management is central to the Group's risk management framework. The consideration of climate change risks within that framework continues to evolve at pace and the Group is continuing to both gather data and develop approaches which will enable it to manage climate change risks as these become more material. To that effect, we are also staying close to industry and regulatory developments with respect to climate change, and will engage with dealers and manufacturers partners as products and customer expectations evolve. Our intention is not just to mitigate the potential risks arising from climate change; as a business, DF Capital want to be at the forefront of supporting the transition to climate-friendly assets within our industry segments – both as a commercial opportunity, social responsibility and in line with our Sustainability Philosophy.

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Corporate Governance

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Corporate Governance

Mark Stephens
Independent
Non-Executive Chair

I am pleased to introduce this year's Corporate Governance Report.

2023 has been another transformative year for the business within which we have continued to embed a culture of strong corporate governance with a focus on maturing the framework to support the Group as it continues to grow and scale. Having seen new members join in 2022, the Board and each of its committees has developed a strong sense of oversight and guidance from a strategic and risk perspective. This is supported by the findings of an external Board Effectiveness Review which was carried out during the year. As we look forward to 2024, I am confident that the well-established foundations of corporate governance and positive 'tone from the top', will benefit the business in adapting its framework to support the group's growth and strategic ambitions with particular focus on embedding the new Quoted Companies Alliance Governance Code ("QCA Code").

DF Capital operates as a specialised personal savings and commercial lending bank within the UK. In addition to the QCA Code to which we adhere, the Group is required to comply with the operating conditions and guidance set out for banks within the statutory, legal, and regulatory frameworks, under UK law, enacted by the UK regulatory authorities, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

To that end, DF Capital is managed and governed by suitably qualified and authorised personnel, under the governance of an experienced and diverse Board of Directors. The Board has responsibility for oversight of the executive team in relation to its regulated activities and to ensure that an appropriate balance is achieved between promoting suitable long-term growth and delivering short term objectives.

I am pleased that the externally facilitated Board Effectiveness Review which was completed this year revealed positive results in a number of areas and notably concluded that the Board has a strong awareness of its corporate governance responsibilities and a desire for continual improvement. I found the process to be informative and useful both in cementing my view that the Board is effective and engaged but also helpful in providing some guidance on administrative areas of development to support the Board and the business going forward.

The Board is committed to the principles of corporate governance contained in the QCA Code and has continued to embed and apply this Code throughout DF Capital's framework. The Board appreciates the value which the corporate governance framework brings to its activities and its ability to effectively guide the strategy and decision-making framework.

Mark Stephens
Independent Non-Executive Chair

Board of Directors

Key
- R Board Risk Committee
- A Board Audit Committee
- Re Remuneration Committee
- N Nomination Committee
- —— Committee chair

Chair

Mark Stephens

Independent Non-Executive Chair

Committees

Mark is currently the Chair of the Board Risk Committee of Birmingham Bank and has over 40 years of experience in UK banking across a wide range of functional areas. He was formerly the Chief Executive Officer (CEO) of Allica Bank and of Harrods Bank, and prior to those was Deputy CEO and one of the founders of Aldermore Bank.

Notable appointments:

Birmingham Bank Limited, Crowd Property Limited, CSBF Capital Partners Limited

Executive Directors

Carl D'Ammassa

Chief Executive Officer (CEO)

Carl joined DF Capital in March 2020 and successfully led the firm through to its full authorisation as a bank. Carl has spent more than 25 years' working in commercial, regulated and SME finance, with extensive divisional managing director and CEO experience built across a number of UK based businesses. Carl was Group Managing Director at Aldermore Bank, leading its growing business lending franchise. He spent over a decade at GE Capital, and held roles at White Oak UK, Hitachi Capital (now Novuna) and Hydrex Ltd. Carl has been Chair and Director of The Leasing Foundation and was a Non-Executive Director of AFS Group Holdings Ltd.

Gavin Morris

Chief Financial Officer (CFO)

Gavin was appointed Chief Financial Officer in May 2018 and possesses over 30 years of financial services experience across banking and commercial and SME lending. Gavin has deep finance expertise in a regulated environment from his time at GE Capital Bank in the role of Acting CFO and in a number of "Head of" finance roles including Treasury, Regulatory Reporting, Controllership, Pricing and FP&A. Gavin is a qualified Chartered Accountant and spent 10 years with KPMG.

Company Secretary

Karen D'Souza

General Counsel and Company Secretary

Karen has 10 years' experience at Addleshaw Goddard working principally on general banking, corporate restructuring and debt advisory matters. This was followed by a role as Head of Legal (Transactions) working across transactions, investments, and general corporate advisory and governance matters at a pan-European investment fund manager.

Non-Executive Directors

Nicole Coll

Independent Non-Executive Director

Committees

Nicole is a qualified chartered accountant with over 20 years' global financial services experience, including serving as Chief Finance Officer at Bank and Clients PLC, Chief Financial Accountant at the Bank of England and senior finance roles at Société Générale.

Notable appointments:

Dudley Building Society, Atrium Underwriting, Credit Suisse Asset Management UK

Thomas Grathwohl

Independent Non-Executive Director

Committees

Tom is a former GE Capital Senior Managing Director with over 40 years' of distribution finance industry experience. Tom assisted in the sale process of GE Capital Commercial Distribution Finance to Wells Fargo in 2016. During his tenure at Wells Fargo, Tom assisted in the global integration of the GE Capital Commercial Distribution Finance Business.

Notable appointments:

Member of the Advisory Board of Camp Sunshine, a paediatric cancer support organisation.

Sheryl Lawrence

Senior Independent Non-Executive Director

Committees

Sheryl is a chartered accountant and holds an MBA from London Business School and an LLM from the Institute of Advanced Legal Studies. She has held senior executive roles at Barclays, Lloyds Bank, Santander, Coventry Building Society, Nationwide Building Society and Provident Financial Group.

Notable appointments:

Habib Bank Zurich plc, RCI Bank UK Ltd, Vocalink Limited, St Andrew's Healthcare.

Haakon Stenrød*

Non-Executive Director

Haakon is an Investment Director at Watrium AS and a Board Member for Ultimovacs, a cancer biotech company listed in Oslo. He was previously a partner with ABG Sundal Collier, the leading Nordic investment banking group. He has broad transaction experience in M&A, equity capital markets, debt and restructuring advisory. He holds an M.Sc. in Industrial Economics and Technology Management from the Norwegian University of Science and Technology.

Notable appointments:

Ultimovacs ASA, Enable Partners Holdings Limited.

* Haakon Stenrød hold his position as a Non-Executive Director by virtue of Watrium AS, a major shareholder, exercising its right to appoint a Director under its Relationship Agreement with the Company.

Corporate Governance Framework

The Board

The Company's Board is established with senior practitioners from the banking industry and has shareholder representation. The Directors act within the powers granted by the Company's Articles of Association and are cognisant of their overarching duty to promote the Company's success and to drive long term shareholder value. The experienced Directors challenge the work of the executive, using care, skill and diligence and exercising their independent judgment.

The Board has the overarching responsibility for establishing an effective and proportionate Corporate Governance Framework in line with the following criteria:

- Corporate values and governance principles established under its founding principles;
- The Quoted Companies Alliance Governance Code ("QCA Code") and the Basel Committee on Banking Supervision's Corporate Governance Principles for Banks, as adopted by the PRA and FCA;
- UK banking regulatory requirements;
- A strong customer focus, embracing the values of New Consumer Duty, Treating Customers Fairly ("TCF") and Conduct Risk;
- Provision of good value savings products; and
- Aligned to the Board approved and agreed Risk Appetite Statement.

The Chair is responsible for leadership of the Board and its overall effectiveness whilst the Board has charged the Chief Executive Officer ("CEO") to ensure that all policies and procedures in relation to the governance of the Company are fully integrated into its operations. Implementation of the Group's strategies and day-to-day business is delegated to management via the Executive Committees.

The organisation structure sets out clearly defined roles and responsibilities, lines of accountability and of defence, and levels of authority to ensure effective and independent stewardship. Matters which are reserved for the Board's approval and delegation of powers to the Board committees are expressly set out in the relevant Terms of Reference and in an approved framework on limits of authority.

Board meetings

The Board's primary responsibility is to provide leadership, set strategic objectives and develop robust corporate governance and risk management practices. Before each Board meeting, the directors receive, on a timely basis, comprehensive reports on issues to be discussed at the meeting. In addition to Board papers, directors are provided with relevant information between meetings and this can consist of offline approvals which are then ratified at subsequent meetings.

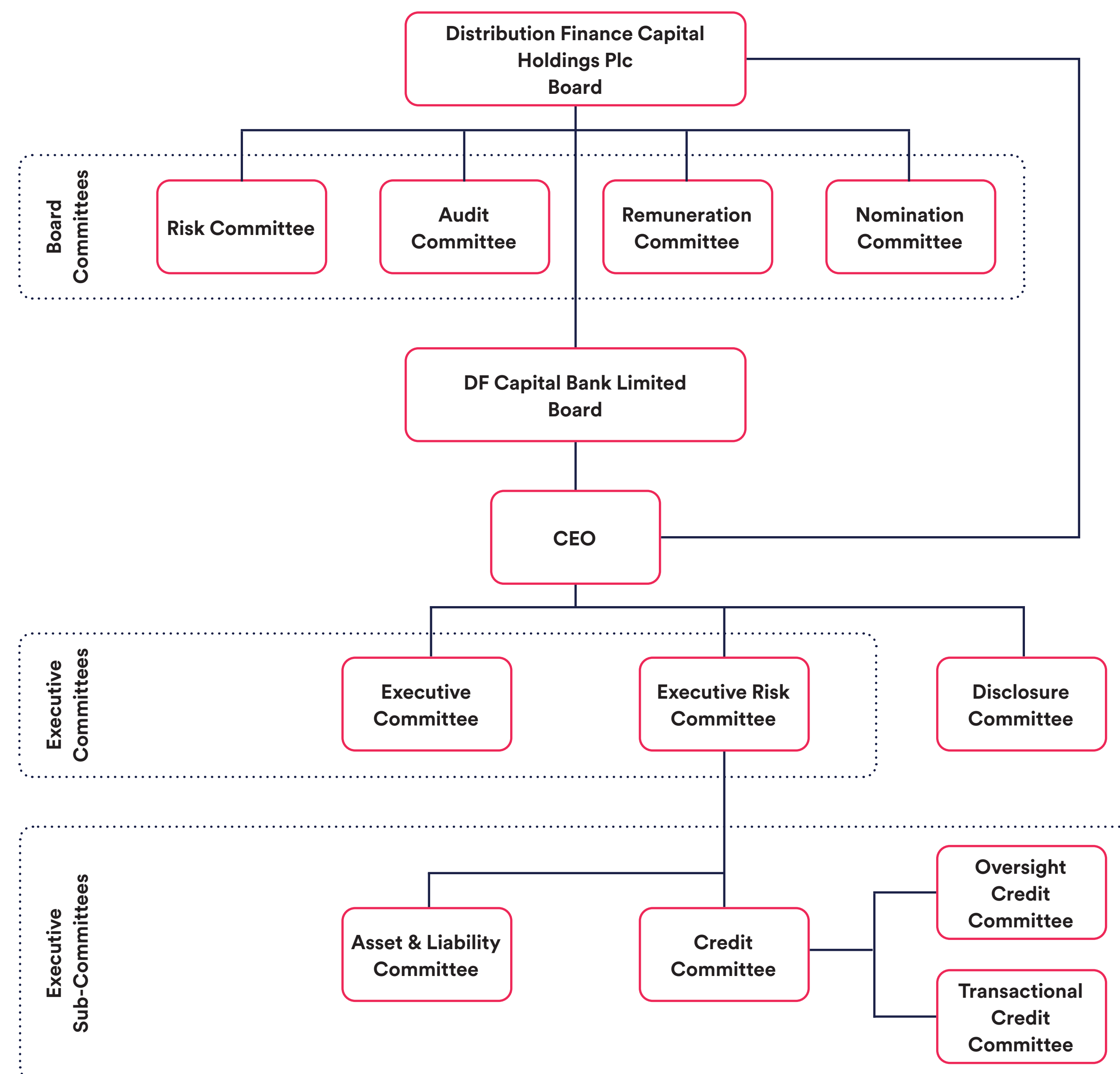
Any director wishing to do so may take independent professional advice at the expense of the Company. All directors are able to consult with the Company Secretary, who is responsible for ensuring that Board procedures are followed. The directors also have direct access to the advice and services of the outsourced Internal Audit function in addition to other members of the senior management team. There is an agreed audit plan and the Internal Audit function reports directly to the Audit and the Risk committees.

The Board has regular scheduled meetings. During the year there were 9 scheduled Board meetings. As and when the need arises, additional meetings are held to deal with any specific time-critical business matters. In 2023, 8 ad hoc meetings were called to deal with matters including the approval of the full and half year results, voting at the AGM and potential M&A opportunities and other strategic initiatives. Directors' attendance at Board and committee meetings is detailed in the table on page 66.

Board balance and independence

The Board currently consists of four independent Non-Executive Directors, one of whom is Board Chair, one Non-Executive Director, two Executive Directors and its Company Secretary. Biographical details of each Board member can be found on pages 62 and 63.

The Board considers its non-executive directors remain sufficiently independent and of such calibre and number that their views may be expected to be of sufficient weight that no individual or small group can dominate the Board's decision-making process. The Board maintains a mix of independent and non-independent directors in the interests of balance and good governance, and in accordance with a relationship agreement entered into with one of its major shareholders, as disclosed in DF Capital's listing documents.



Board and Board sub-committees

Details for the Board sub-committees and their responsibilities can be found on the following pages:

- Board Risk Committee - page 70
- Board Audit Committee - page 74
- Remuneration Committee - page 78
- Nomination Committee - page 84

Management committees

The CEO is supported by a number of management committees, created under their delegated authority. Details for the management committees can be found on the following pages:

- Executive Committee - page 88
- Executive Risk Committee – page 88
- Asset and Liability Committee - page 89
- Credit Committee - page 90
- Disclosure Committee - page 90

Attendance at meetings

The attendance of the directors at the Board and the principal committee meetings that took place during the year are shown below.

	Board	Risk	Audit	Remuneration	Nomination
Number of meetings held (exc specific ad hoc meetings)	9	6	4	3	2
Independent Non-Executive Directors					
Mark Stephens (Chair)	9	6	4	3	2
Sheryl Lawrence	9	6	4	3	2
Nicole Coll	8	6	4	3	2
Thomas Grathwohl	8	6	4	3	2
Non-Executive Directors					
Haakon Stenrød	9	-	-	-	-
Executive Directors					
Carl D'Ammassa	9	-	-	-	-
Gavin Morris	9	-	-	-	-

All Executive Directors have a standing invitation to sub-committees but are not voting members when in attendance. Executive Directors and members of the Senior Leadership Team attend sub-committee meetings to present material and contribute to the discussion.

Omar Lindholme Southwold

Board effectiveness

The effectiveness of the Board is the responsibility of the independent non-executive chair. Board performance is reviewed internally on an annual basis and an external review is held every three years. The review looks at what is working effectively and areas that can be improved. An action plan is then put together to monitor developments.

Following the internal Board effectiveness evaluation conducted in Q1 2023 details of which were included in the firm's 2022 Annual Report, an external Board effectiveness evaluation was carried out by an external firm in Q2-Q3 2023. It is pleasing that the review concluded that the Board is operating satisfactorily in terms of both control and management awareness. I am also pleased that whilst there were some recommendations and findings from the report, these were all categorised as "low" and "medium" risk only and were mainly administrative and process points which required some embedding and updating. Each of these items has now been reviewed, actioned and implemented. Of particular note in the findings was the recommendation that the Board consider documenting the succession planning process. Given that this is noted as a vital task as part of the new QCA Code it is pleasing to note that a full iterative process of identifying the skills, experience, capabilities and background of the directors and senior management has been carried out and is being reviewed on an ongoing basis.

Board committees

The Board is supported by a number of established Board sub-committees, namely the Board Audit Committee ("BAC"), Board Risk Committee ("BRC"), Nomination Committee ("NomCo") and Remuneration Committee ("RemCo") to which responsibility for certain matters have been delegated. The Board (and each of its sub-committees) has adopted and maintains Terms of Reference ("ToRs"), setting out the committee's roles and responsibilities – they key delegations are highlighted in a delegations of authority matrix document. The ToRs also set out the independence, duties, and responsibilities that the members of each committee must observe in the performance of their duties. Each set of ToRs is subject to review on an annual basis and are published on our website.

The committee structure is shown on page 65, and reports from each committee are set out later in this Report, providing further details of the roles, responsibilities and activities undertaken during the year.

Stakeholder engagement

Consideration of the Group's full range of stakeholders, including our employees, customers, shareholders, and regulators continued to be an integral part of the Board's discussions and decision-making. An overview of the Board's engagement activities with each of our key stakeholder groups can be found on pages 91-93 of this report.

Key topics discussed by the Board

Topic	Activity
Business performance	- Operational Resilience, material outsourcing and important business services - Customer survey results - Sector deep dives - PRA PSM Letter
Financials (eg budgets)	- Large Exposures and Concentration Limits - ICAAP & ILAAP stress scenarios, Solvent Wind Down Plan, Resolution Pack - Full and half year results, Pillar 3 disclosures - Earnings upgrade - Management rep letters - 2023 Budget
Investor Relations	- Investor roadshows and feedback
Governance	- Board Effectiveness Review - Corporate Governance Framework - AGM voting and arrangements - Terms of Reference - Modern Slavery Statement
Risk Management	- 3LoD continuous development plan - Annual review and updates to all frameworks, policies and SOPs - Material recoveries and arrears management - Consumer Duty
Strategy	- Climate change and sustainability - M&A opportunities - New products and strategic development - Multi-year and strategy plan
Technology	- Technology roadmap - Automation opportunities - 2023 Change roadmap - Cyber and information security
People	- Best Companies Results - Equality, Diversity and Inclusion - CSR and social media strategy - Pay and Bonus recommendations including performance share awards and SAYE scheme launch

Board Risk Committee Report

Sheryl Lawrence
Chair of Risk Committee

I am delighted to share with you the Risk Committee Report for the year ended 31 December 2023, a year in which rapidly changing economic conditions have materialised in a recessionary second half, but where we have continued to make controlled progress and upgraded our risk capabilities.

Risk Oversight

DF Capital has a maturing Risk Management Framework ("RMF") through which risks are managed across the firm in line with the Board's defined risk appetite, overall and for each of its principal risks, be they credit, prudential, operational, compliance, strategic or climate change risks.

Through regular scheduled meetings, management regularly provides the Committee with insight on these principal risks through dashboards, Key Risk Indicators and thematic reports.

Credit risk oversight is a significant component of the Committee's duties, given the bank's business model. In addition to scheduled reports, the Committee has held additional meetings to receive proactive reports from management on specific complex or large transactions, arrears cases and situations of default, as well as new lending opportunities. Over the course of the year the firm's loan book volumes have grown, as the economy continued to move away from the pandemic period. Heightened vigilance around the drivers of credit risk has proved to be key in maintaining a strong performance during the second half of the year, one where the economy was in recession. Managing concentration risk remains a key theme and area of focus, as do lessons learnt from the RoyaleLife loss.

Given the environment and working with Board Audit Committee, the Committee has considered and challenged processes, economic assumptions and adjustments to the Group's IFRS9 impairment accounting and specific overlays relating to the immediate macro-economic impact. The Committee has benefited in both credit risk management and setting of IFRS9 parameters from the macroeconomic analysis and insights provided directly to it by Capital Economics.

The Committee has considered both evaluation and measurement of climate-related risks and meets present regulatory expectations. Understanding how climate change risk impacts our customers, our business strategy and our credit risk profile are key determinants that will be an on-going feature of the Committee's oversight of the firm. The Committee has asked for and received portfolio information on exposure to such risks and relevant data is now captured.

The Committee has received the regular annual report from the Money Laundering Reporting Officer ("MLRO"), where compliance and financial crime risks have been considered both bottom up from a new product and geography level and top down, based on advice from regulatory and industry sources. The Committee continues to track delivery and implementation of capability in his area.

Over the course of the year, the Committee has paid continual attention to the Financial Conduct Authority's ("FCA") requirements on the new Consumer Duty. This is a priority area for the Committee where we have moved over the course of the year from identification of requirements, through to tracking and reviewing implementation. The Committee will continue to monitor progress and reporting in H1 2024.

Finally the Committee has continued to focus on operational resilience and is about to consider the effectiveness of the firm's capability after the first 12 months of embedding.

- The BRC is chaired by the Senior Independent Non-Executive Director ("SID")
- The BRC meets at least six times per year

Overseeing Capital and Liquidity

The Committee receives regular reports and challenges management on all aspects of prudential risk. This is critical to ensuring that the Group has adequate capital headroom to support its lending ambitions, that its liquidity requirements are managed effectively and prudential regulatory requirements are strictly complied with. In delivering on this responsibility, the Committee has spent time considering, reviewing and challenging the Group's Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

The BRC has tracked compliance with and the capital efficiency of the British Business Bank's ENABLE Guarantee scheme and overseen the process of agreeing to a committed Tier 2 capital facility, arranged through British Business Investments. The first tranches of Tier 2 have been successfully drawn down. BRC constantly monitors both aggregate RWA usage and flightpath and concentrations of exposure. Prior to year-end it oversaw the placement of private sector credit insurance as an additional mitigation tool.

From time to time, the Group is required to consider its Recovery Plan, Solvent Wind Down Plan and work through stress test scenarios to refine thinking and the firm's tactical actions should either plan be invoked. This work has been a feature of the Committee's oversight through the year, with constructive challenge given to the executive on the comprehensiveness of risk coverage, the design of stress scenarios and the credibility of both management actions identified and the overall outcome of the prudential and business metrics.

The Committee and the management team have an open and transparent relationship with the firm's regulators. The Committee has been kept updated on key firm specific and thematic topics that feature in the team's regular engagement with both regulators and their proactive horizon scanning.

Risk Management Framework ("RMF")

Ensuring that we have an appropriate and proportionate attitude and competence towards risk across the bank is a primary objective of the RMF, which captures risk policies, systems, processes and people. The Committee reports to the Board on the adequacy and effectiveness of the RMF, includes the at least annual review of its components and overseeing any action resulting from material breaches.

Given the firm's significant strategic ambitions, the Committee seeks to ensure that the application and embedding of the RMF allows a careful balance between the prudent risk management of all risk disciplines and the business objectives that support the bank's multi-year growth plan, being always mindful of unpredictable external factors and the evolving macro-economic landscape.

Whilst regulatory expectations of increasing risk management capability have clearly been laid out, I am pleased with the developments in reporting and analysis that have been made throughout the year to ensure that BRC continues to successfully discharge its duties. I will am expecting and indeed require that the firm will develop this further as important new products are rolled out, such as SME Savings and Hire Purchase products.

I continued to be comfortable with the attention the executive give to good risk management and indeed compliance, right across the organisation. I have a high degree of confidence in our future plans to achieve controlled growth of the firm and diversification of our product range, which reduce the structural risks of operating as a monoline. As the firm becomes more complex and scales, we seek to ensure our risk frameworks, policies and structures remain well calibrated to our growth while avoiding over-engineering and complexity so that we maintain the fitness for purpose of our risk management capabilities.

Sheryl Lawrence
Chair of Risk Committee

Board Risk Committee (“BRC”)

The BRC is a Board-level committee with responsibility for ensuring that DF Capital’s operations are adequately supported by a comprehensive and proportionate Risk Management Framework (“RMF”). The BRC reviews and recommends for Board approval all of the Company’s overarching risk frameworks, as well as its regulatory documents: ICAAP, ILAAP, Recovery Plan, Solvent Wind-down Plan, and Resolution Plan.

The BRC reviews, reports and makes recommendations to the Board on the Company’s overall risk appetite, tolerance and strategy, in order to achieve its long-term strategic objectives- this is underpinned by the Risk Appetite Framework (“RAF”). It is also responsible for the oversight of assets and liabilities, including liquidity, funding and capital management, the lending portfolio and associated credit policy and has oversight of all matters arising out of Company operations, together with responsibility for the Company’s ethical and business standards in line with the Code of Ethics.

Key responsibilities of the BRC include:

- Overseeing the development, implementation and maintenance of the Company’s overall risk management framework including its risk appetites, principles and policies; in agreement with the CRO;
- Overseeing adherence to the Company’s risk principles, policies and standards and any action taken resulting from material policy breaches;
- Reviewing the capital and liquidity stress testing implementation (including the design of scenarios) and challenge, approve and act based on the results of the stress tests covering ICAAP, ILAAP, Recovery Plan, Solvent Wind-down Plan and Resolution Plan;
- Overseeing the Company’s key risk exposures and risk versus return strategy (including risk to the Company’s business model and solvency/liquidity risks);
- Review the Company’s values, culture and reward systems for managing risk and internal controls;
- Review adequacy of risk and compliance resource and its authority and standing within the Company;
- Approving statements on internal controls and risk management in the annual report;
- Approving new products under NAPA;
- Ensuring that all legal and regulatory requirements, including the disclosure of information, are fulfilled;
- Maintaining oversight of the Executive Risk Committee (“ERC”);
- Working and liaising with other Board committees where necessary, including ensuring alignment with RemCo in the assessment of remuneration and effective risk management; and Audit Co in terms of compliance;
- Reviewing the effectiveness of the Chief Risk Officer, with whom the Chair of the BRC has a dotted reporting line, signifying the CRO’s direct access to the Board.

Key topics discussed by the Board Risk Committee

Topic	Activity
Risk frameworks and policies	- Risk Management Framework, Risk Appetite Framework, Individual Risk Management Frameworks and the RCSA framework - Anti-bribery and Corruption, Senior Manager and Certification Regime, Gifts and Entertainment, Anti-money Laundering and Counter Terrorism Financing, Fraud Risk, Model Risk policies
Risk monitoring	- Key and emerging risks - Risk metrics against risk appetite - Asset quality reviews - IT and security - Regulatory engagement, horizon scanning and action tracker - FCA Consumer Duty implementation and tracking - Macroeconomic analysis
Risk appetite and strategy	- Transactional reviews - Recoveries hindsight review - MLRO Annual Report & AML Risk Assessment - Large Exposure and Sector Concentration Risk Appetites - Operational Resilience, Important Business Services and Supplier Segmentation - Climate change risks and reporting - 2LOD organisational design plan
Governance	- Terms of Reference review - Conduct & Culture - Product design and risks (NAPA process)
Capital, liquidity, and stress testing	- ICAAP and ILAAP including areas for improvement, stress tests and Pillar 2 disclosures - Review of Recovery Plan, Solvent Wind Down Plan and Resolution Pack

Board Audit Committee Report

Nicole Coll
Chair of Audit Committee

Whilst much of the Audit Committee's work has followed similar themes to prior years, it has undoubtedly been a busy year for the Committee in its oversight of both internal and external audit and ensuring the continued integrity of the Group's financial statements and the effectiveness of the systems of internal control.

The macro-economic headwinds have continued through the year, accordingly the Committee has needed, in close collaboration with the Risk Committee, to keep a close watch on the assumptions and our assessment of the impact of these challenges on the firm and its financial reporting.

Internal audit

The Group's internal audit function remains outsourced to Grant Thornton LLP ("GT"). GT completed seven audit reviews through the year on behalf of Audit Committee and the Internal Audit Annual Review. Additionally GT provided other advisory work which included but is not limited to sharing industry insights and horizon scanning. The Committee uses internal audit findings and reports, alongside the work of the firm's own second line risk oversight team, to establish the effectiveness of the Group's control framework, compliance with policies and overall approach to managing the firm's principal risks.

This year's audit plan covered another cross-section of themes, in line with the multi-year audit plan which ensures critical areas of risk controls are assessed on rotation. Audits included:-

- Internal liquidity adequacy assessment process ("ILAAP")
- Credit risk
- New consumer duty
- Change management
- Regulatory reporting
- Fraud controls
- Cyber and Information security

External audit

Deloitte LLP ("Deloitte") was reappointed the Group's external auditor, with the Committee having responsibility to oversee the effectiveness and work of our external auditor. The Committee has ensured the enduring independence of Deloitte, approved the external audit plan and considered the results and findings of the audit.

Given the continued growth and increasing complexity of the Group's activities and having satisfied itself that the auditor's remuneration remains appropriate relative to the services provided by Deloitte, the Committee approved an increase in the external auditor's fee for 2023 to £287,000 (2022: £274,000).

Policy reviews

As part of the regular policy update cycle, the Committee considered and approved a number of the Group's policies again this year. These included external reporting; significant transactions, IFRS9 impaired assets, substantial and related parties, non-audit services, accounting and tax policies.

- The BAC is chaired by an INED, who is also the Whistleblowing Champion
- The BAC meets on at least a quarterly basis

Reporting disclosure and subjective accounting matters

An important role for the Committee is ensuring the integrity of the Group's external disclosures. To present the financial performance of the Group adequately and appropriately, the management team make subjective accounting judgements across a number of material areas of accounting. Both external audit and the Committee diligently review and challenge the rationale and analysis behind these judgements to ensure that the Group's financial statements present a fair, balanced and understandable assessment of the Group's position and prospects.

Deloitte provides its own insight to support the Committee's deliberations on these matters.

The Group issued its Pillar 3 disclosures again alongside the publication of the annual report and accounts, with the Committee assessing the disclosure against the requirements and ensuring that the preparation process remains appropriate.

Share-based payments

Share-based awards are an important component of the Group's remuneration strategy to reward the achievement of the Group's longer terms performance objectives. Given their nature, these awards can be significant and, in many cases, are dependent on the achievement of performance conditions. The firm is therefore required to complete subjective judgements as to the outcome of both new and existing share awards on the basis of the Group's future performance. The Committee, working with the Remuneration Committee, considered the ongoing accounting treatment of granted awards and the established methodology used to calculate their value and the expense to be captured in the Group's financial statements. A total charge of £0.9m (2022: £0.5m) was made during the year.

Macro-economic factors and expected credit loss provisioning

With the assistance of external macro-economic analysis, the Group has continued to evolve and enhance its approach to credit loss provisioning. Credit loss remains the firm's largest principal risk and in light of the continued macro-economic challenges, this area has quite rightly been under regular consideration by the Committee, working alongside the Risk Committee. The Committee is pleased with the progress that has been made in enhancing the sophistication around credit losses and IFRS9 assessments. The Committee has challenged and approved management's analysis, methodologies and approach in this area, and has satisfied itself that credit loss provisions remain adequate and appropriate for the uncertain macro-economic environment and projected business insolvency rates.

The Committee has specifically considered the appropriateness of the credit loss provision in relation to RoyaleLife, determining that the prudent approach proposed by management is the right course of action in light of the unique circumstances of this case.

Nicole Coll
Chair of Audit Committee

Board Audit Committee ("BAC")

The BAC is a Board-level committee with responsibility for ensuring that DF Capital's functions are adequately supported by a comprehensive and proportionate audit and internal controls framework.

The BAC provides confidence to the Board and shareholders on the integrity of the financial results of the Company expressed in the annual report and accounts and other relevant public announcements, filings and reports of the Company. The committee reviews the effectiveness of DF Capital's financial controls and considers management's response to findings and recommendations made in external and internal audit reviews. The BAC oversees the Company's fraud and whistleblowing policies and procedures, as well as monitoring compliance with any disclosure requirements. The Committee's chair is the Company's designated 'Whistle-blower's' Champion'.

Key responsibilities of the BAC include:

- Challenging both the external auditors and management of the Company;
- Reviewing and reporting to the Board on any significant reporting issues, estimates and judgements made in connection with the preparation of the Company's financial statements;
- Ensuring appropriateness of the Company's accounting policies;
- Reviewing the statutory accounts, financial statements, and other regulatory disclosures;
- Reviewing the effectiveness of the Company's systems of internal control;
- Overseeing the relationships with both the internal and external auditors, including their appointment, terms of engagement, effectiveness, remuneration, provision of non-audit services and the employment of former employees of the external auditor or outsourced internal auditor;
- The establishment and ongoing maintenance of a robust and comprehensive audit framework alongside an annual external audit plan; and
- Oversight over DF Capital's compliance with regulatory and reporting requirements.

Key topics discussed by the Board Audit Committee

Topic	Activity
External Audit	- Statutory accounts timetabling and approval (including interim accounts) - Statutory to management accounts reconciliation - Pillar 3 Review and Disclosures - Interim review and full year audit, including going concern review - Subjective accounting consideration, including IFRS9 provisioning, deferred tax and share based payments - Net profit verification - Approval of statutory audit fees
Internal Audit	- 2024 Audit Plan - Review of internal audit reports including board effectiveness, ILAAP, credit risk, change management, regulatory reporting, cyber and information security and fraud
Internal controls	- Non-audit services policy - Tax policy - External reporting policy - IFRS9, significant transactions and substantial related parties
Financial & Governance	- Terms of Reference review - Conduct & Culture - Whistleblowing Policy and annual whistleblowing report - Share dealing and Close Period reviews

Remuneration Committee Report

Mark Stephens
Chair of Remuneration Committee

- The RemCo is chaired by an INED
- The RemCo meets twice a year (and as necessary beyond that)

As the firm matures, the Remuneration Committee's activities and considerations have become more regularised in nature.

Our remuneration objectives remain to promote the long-term success of the firm and delivery of its strategic plan by attracting, motivating, and retaining high calibre and talented employees, through a market competitive set of benefits. We ensure that our policies and approach align to the relevant remuneration codes and policy statements of the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). We want to ensure our approach to remuneration encourages the delivery of sustainable performance, appropriate and effective management of the firm's risk profile, strong customer outcomes and the creation of an inclusive and engaging environment for our employees. We remain firm in our view that having an engaged, motivated and well incentivised workforce unlocks the delivery of the Group's strategic ambitions.

Remuneration construct and benchmarking

No material amendments have been made to the Group's compensation and benefit arrangements. These are broadly common across all employees, including the executive directors. The components of the Group's remuneration remain: -

Fixed Pay: Basic Salary which is paid monthly in arrears; In some instances and in line with role, car allowances are given;

Benefits: Non-contributory pension of 10% (or cash in lieu for those eligible); Life Assurance benefit of 4x basic salary; Access to Private Medical Insurance; Income Protection Insurance; Save As You Earn ("SAYE") participation; Electric Vehicle and Cycle to Work Salary Sacrifice schemes; Gym membership; and 30 days annual leave; Volunteering days;

Annual Incentive Plan ("AIP") – a variable pay component: This discretionary cash bonus is awarded as a percentage of basic salary and is a function of the Group's overall performance, tied also to the delivery of personal financial and non-financial objectives, cultural behaviours, and an employee's approach to risk management; and

Performance Share Plan ("PSP") – a variable pay component: Employees participate in the Group's PSP scheme by invitation; with participation generally limited to more senior employees or Executive Directors. The aim of the PSP is to incentivise long term valuation creation by issuing shares awards, generally with performance conditions attached, that vest in a three-year performance review window.

In relation to the executive directors, we completed a refresh of our remuneration benchmarking with the support of FiT Remuneration consultants, the output of which determined that our approach to remuneration falls in line with sector benchmarks for similar sized firms.

A similar benchmarking exercise was completed in relation to the independent non-executive directors' fee arrangements. Having completed this review no immediate changes or increases were proposed for the year ahead.

Full details of directors' remuneration can be found on page 80 of the annual report.

Fixed to variable pay ratio

The Group sought and received shareholder approval at last year's Annual General Meeting to increase the ratio of fixed to variable pay (AIP and PSP) to 2:1. Since making these changes to our policies the regulatory environment has changed further lifting all limits on banking bonuses.

Whilst the Group expects to continue to operate well within the previously approved 2:1 ratio, the Committee has determined that it would be pragmatic to seek shareholder approval to anchor our remuneration policies to any limits or construct proposed by our regulators, however these may change in the future. We believe, as a regulated bank, that this approach will be the most appropriate and allow us to operate in an agile way and respond to market conditions, whilst always remaining regulatory compliant.

Accordingly, this change will be sought through a resolution at the next Annual General Meeting.

Annual salary reviews

Last year the Group provided proactive support to colleagues feeling the impact of high inflation and the cost-of-living crisis. It is pleasing to see inflation rates reducing and forecast that inflation could be back within Bank of England targets by the end of this year.

The market for highly experienced and capable colleagues has remained competitive and whilst the Group offers an excellent suite of benefits and remuneration, we have had to respond to some of this labour market competition by offering tactical salary reviews. The Committee is pleased that the firm's culture is such that employee retention rates are high, sitting at 92%.

Effective 1st April, the Committee has approved annual salary reviews and market adjustments that average 4.9%. In line with previous years, we have ensured that our colleagues most susceptible to inflationary pressures receive a higher percentage increase relative to their base salary. We have also been bold in our commitment to being a Real Living Wage provider, by ensuring salary exceeds this voluntary minimum wage by 15%.

Executive directors' fixed pay is reviewed annually, with both Carl D'Ammassa and Gavin Morris each receiving an inflationary increase of 4%, which is below the average received by all colleagues. Taking account of the inflationary increases made to executive directors' remuneration, their respective pay still falls well within the benchmarking completed earlier in 2023.

Annual incentive plan

AIP awards are paid to employees during the first quarter following the financial year end. The Committee has determined that 2023 has been another exceptional year of delivery for the firm across the balanced scorecard of objectives used to measure performance. This balance scorecard includes:-

- Financial objectives (profit and loss; lending; net interest margin; capital management; cost of risk);
- Customer satisfaction scores (net promoter score; feefo);
- Risk management;
- Culture and employee engagement scores; and
- Personal objectives.

Whilst the holistic performance of the Group has been strong, culminating in a threefold increase in the Group's profit before tax, the situation that has unfolded and credit loss provision in relation to RoyaleLife cannot be ignored. The Board has noted the tireless efforts of management to resolve this matter successfully but given the complexity of the obligor's financial and organisational situation as laid out elsewhere in the annual report, a positive outcome has not been possible within the financial year under consideration.

Accordingly, the Committee determined that the general bonus pool available to distribute amongst employees should be capped at c75% of on-target earnings to reflect the impact of this sizeable credit loss provision, with the Group's most junior colleagues receiving close to their on-target earnings and more senior employees receiving a lower percentage of their target. In line with previous years, outstanding performers have received additional recognition whilst remaining within the bonus pool cap.

The CEO's performance has been assessed against a balance scorecard of objectives. These included: achievement of financial results; product development; pursuit of inorganic (M&A) and organic opportunities and partnerships; customer satisfactions; risk management scorecard; automation and digitalisation initiatives; continued evolution of the firm's culture and employee engagement; and delivery of capital efficiency initiatives (i.e. BBB ENABLE Guarantee and Tier 2 capital).

In relation to the incentive award for the executive director's, the Committee determined that, despite delivery of stretching objectives, recognition under the AIP scheme should be capped at 70% of their on-target earning potential and is laid out in the table below:-

	2023				2022			
	AIP Payment £	% relative to fixed pay[1]	Maximum %	% of Maximum range	AIP Payment £	% relative to fixed pay[1]	Maximum %	% of Maximum range
Carl D'Ammassa	310,625	69.0	100	69.0	355,938	83.8	100	83.8
Gavin Morris	101,500	35.0	50	70.0	120,000	43.5	50	87.0

1. Fixed pay is defined as base salary at time of award

Sharing in the Group's success

The Committee believes that having the Group's employees share in the firm's success through all-employee share awards drives strong alignment between employees doing the right thing, doing their best and helping build shareholder value.

Common with previous years, the Group made an all-employee PSP award during the year, with each employee, managers and a small number of outstanding performers receiving an allocation of shares in the Group. The total number of shares granted in this award cycle totalled 980,000. These awards were granted as nil-cost options and have no specific performance conditions attached to them, other than continuing employment at their three-year vesting date. The Committee is currently considering whether similar awards should be made during the 2024 financial year.

Additionally, a small number of recruitment or promotion awards were made to senior leaders across the Group, also under the PSP, with the quantum of the award generally aligned to the role and/or value of awards made by the former employer forfeited, or as negotiated pre-employment.

The Group remains committed to offering regular opportunities for employees to become shareholders through Save As You Earn schemes.

The Committee also took the opportunity to review the plan rules relating to the share scheme awards and approved an amendment to the dilution limits to remove a 5% dilution limit which it was considered did not afford any material additional protection to existing shareholders given the inclusion of the 10% dilution limit which remains in place.

Long term incentivisation

The Committee believes it is important that more meaningful long term incentivisation is in place for several members of the management team and having consulted with a number of shareholders last year, the Committee made a number of share awards, as nil-cost options, with equivalent value of up to 100% of an individual's salary. These awards have performance conditions anchored to key financial performance indicators at the end of the Group's 2025 financial year.

The awards were granted alongside AIP awards and in line with the variable pay ratio of 2:1, limiting any in-year variable pay awards in aggregate as previously outlined. The Committee is cognisant of the dilution limits on the number of shares available for management incentivisation and whilst the Group's growth ambitions are significant, the firm's current depressed share price and the number of shares that can be made available for management awards has somewhat constrained the upside potential of any LTIP scheme relative to those that may be offered in other organisations.

The Committee believes it is important to have meaningful long term incentivisation in place for the management team and accordingly will keep this situation under review. Having motivational levels of long term incentivisation, aligned to positive shareholder outcomes is critical to drive success and the delivery of the Group's multi-year strategic plan. Details of the share awards granted and specifically those made to the executive directors are available on page 142 of the annual report.

Mark Stephens
Independent Chair
Chair of the Remuneration Committee

Remuneration Committee (“RemCo”)

The RemCo is appointed by the Board and is responsible for considering and recommending to the Board an overall remuneration strategy aligned to its long-term objectives and risk appetite. It ensures that remuneration decisions compensate directors, executives, and other employees fairly and responsibly.

Key responsibilities of the RemCo include:

- Ensuring that the remuneration arrangements are aligned to support the implementation of company strategy and effective risk management for the medium to long-term, taking account of the interests of shareholders;
- Overseeing the establishment and maintenance of a remuneration policy and benefits structure that motivates and rewards the right behaviours, values, and culture to support the delivery of business objectives in the short, medium, and long-term;
- Ensuring that the structure and mix of fixed and variable pay meets legal and regulatory requirements and guidelines; ensuring to make relevant disclosures in the annual reporting;
- Satisfying itself as to the adequacy of performance measures that determine incentives and overseeing any performance related pay schemes or share incentive plans in operation;
- Agreeing the scope of pension arrangements for all employees;
- Ensuring that remuneration levels are benchmarked to industry peers on a periodic basis and remuneration structures and incentives are adjusted for risk; sometimes supported by remuneration consultants; and
- Ensuring that members of the committee commit sufficient time to the role and develop the necessary skills and knowledge (including, for example, current market practice, taxation, and legal requirements).

Key topics discussed by the Remuneration Committee

Topic	Activity
Governance	- Terms of Reference - Remuneration Policy - Bonus Scheme Rules & Sales Incentive Scheme Rules
Individual remuneration	- Executive & Non-Executive Director remuneration and benchmarking - Remuneration package of senior/material recruitment hires - CEO salary review
Performance related	- PSP awards and performance conditions - Recruitment and promotion awards, including LTIPs
Remuneration for wider employees	- Benefit review & individual life plans - Save As You Earn Scheme launch - Discretionary share award

Vmoto Stash

Nomination Committee Report

Mark Stephens
Chair of Nomination Committee

The Nomination Committee has continued to assess ongoing effectiveness and composition of the Board and its Committees together with ensuring the Board skills and diversity of thought remains up to date to support the firm's continued growth and strategic ambitions.

Board Effectiveness Review

Following non-executive director appointments made in 2022, there have been no further changes to the Board or Committee compositions with the focus being on ensuring Board effectiveness and appropriate oversight of executive management. A Board effectiveness evaluation was carried out by an external firm in 2023. Full details are contained in the Corporate Governance report updated at pages 61-95. The Nomination Committee will continue to work closely with the Board to implement the findings from the evaluation including the ongoing skills, training and board succession (further commented on below).

Additionally, in my capacity of Chair of the Board, I have completed 1-2-1 performance reviews with each of the firm's non-executive directors and the CEO.

Management appointments and succession planning

The Committee supports the CEO in considering succession planning and organisation design, particularly of his executive team. During the year, the Committee had visibility of and provided oversight in the process to appoint the Chief Risk Officer and the Chief Commercial Officer. The Committee works in conjunction with the Remuneration Committee in relation to management appointments. The Committee has also considered and implemented a Board succession plan taking into account tenure of Board members and planning for both long term and immediate requirements.

The Committee continues to review and consider the diversity of its Board and Committees and it is pleasing to note that its composition of a majority of independent non-executive directors together with an evenly split gender composition will be positive when implementing and embedding the new QCA code going forward. Nonetheless, the Committee will remain alive to additional diversity and inclusion factors as the firm continues to grow and scale.

The Committee will continue to ensure that the Group has the right skills and expertise in place to achieve its strategic objectives as well as maintaining strong corporate governance responsibilities and, working with the Remuneration Committee, ensure we attract and retaining the best talent.

Mark Stephens
Chair of Nomination Committee

- The NomCo is chaired by an INED
- The NomCo meets twice a year (and as necessary beyond that)

Nomination Committee ("NomCo")

The NomCo is appointed by the Board and is responsible for leading the process of nominating Board committee members and senior management appointments within DF Capital. It also oversees the efficacy of the Company's Corporate Governance Framework, policies, and practices, including succession planning, board skills matrix (including diversity), and effectiveness reviews.

Key responsibilities of the NomCo include:

- Reviewing the structure, size, and composition (including the skills, knowledge, experience and diversity) of all Board committees and making recommendations to the Board with regard to any changes, in consultation with the Chairs of those committees;
- Reviewing the structure, size and composition of the senior management team and making recommendations to the Board concerning the appointment of individuals to senior management positions in consultation with the CEO who carries the responsibility for apportionment under the Senior Managers Regime;
- Considering succession plans and possible internal candidates for future Board roles;
- Reviewing and assessing the adequacy of DF Capital's corporate governance policies, practices, and overall organisation;
- Supporting and advising the Board on the Company's overarching policy on diversity and inclusion;
- Reviewing and assessing the Board's and Board sub-committees' practices to ensure the Board's effectiveness and recommend any changes for the Board's approval;
- Reviewing and assessing any existing or prospective conflicts of interest of the Board members and keeping any authorised conflicts under regular review; and
- Annually reviewing the performance of the NEDs and providing support to the Chair to remove any underperforming executive director or NED.

Key topics discussed by the Nomination Committee

Topic	Activity
Board appointments	- Succession planning
Senior manager appointments	- Ratification of senior/material recruitment hires
Governance	- Equality, diversity & inclusion - Board effectiveness review - Committee structure and reporting

Senior Leadership Team

Executive Directors

DR Direct report to CEO

Carl D'Ammassa

Chief Executive Officer (CEO)

Joined: March 2020

Carl has spent more than 25 years' working in commercial, regulated and SME finance, with extensive divisional managing director and CEO experience built across a number of UK based businesses. Carl was Group Managing Director at Aldermore Bank, leading its growing business lending franchise. He spent over a decade at GE Capital, and held roles at White Oak UK, Hitachi Capital (now Novuna) and Hydrex Ltd. Carl has been Chair and Director of The Leasing Foundation and was a Non-Executive Director of AFS Group Holdings Ltd.

Gavin Morris

Chief Financial Officer (CFO)

DR

Joined: March 2018

Gavin was appointed Chief Financial Officer in May 2018 and possesses over 30 years of financial services experience across banking and commercial and SME lending. Gavin has deep finance expertise in a regulated environment from his time at GE Capital Bank in the role of Acting CFO and in a number of "Head of" finance roles including Treasury, Regulatory Reporting, Controllership, Pricing and FP&A. Gavin is a qualified Chartered Accountant and spent 10 years with KPMG.

Senior Leadership Team

Goi Ashmore

Chief Risk Officer (CRO)

DR

Joined: August 2023

Goi has over 18 years' senior management experience in Risk and Treasury gained at Metro Bank (UK), Barclays and Atradius. His senior risk management responsibilities include compliance and financial crime. He has in-depth experience of implementing systems and controls in a regulated environment, a thorough understanding of cyber security in the sector and deep expertise in financial risks for both SME and retail sectors. Goi is currently Pro Chancellor and Chair of Council for Swansea University.

Garry Frew

Chief Commercial Officer (CCO)

DR

Joined:July 2023

Garry has over 17 years' experience in global business finance with a focus on building customer relationships at a senior level. He has previously held positions at Wells Fargo as strategic relationship leader where he managed a large team and was for responsible for a $3 billion global portfolio, and GE Capital where he held a number of director-level roles focused on managing key accounts and delivering strategic targets. Garry has an executive MBA from London Business School and extensive experience of financial planning, analysis and reporting.

Charlie Michael

Chief People and Sustainability Officer

DR

Joined: December 2020

Charlie has more than 20 years' financial services experience, including 10 years at Aldermore Bank as well as spending time at Merrill Lynch and Formation Asset Management. Charlie has worked across all HR disciplines, including business partnering, HR support services, training and development, as well as talent management and recruitment. Charlie is a member of the Chartered Institute of Personnel and Development and is a Trustee of JustLife, a temporary accommodation charity for the homeless.

Paul Atherton

Director - Operations

DR

Joined: May 2018

Paul has more than 20 years' experience within the banking and financial services industry and is a senior operations and change leader with a proven track record within start-up challenger banks during the design, implementation and growth phases. Part of the mobilisation team at OakNorth, holding various operational and transformation leadership roles at Aldermore Bank, Paul has led and been responsible for customer services and collections, lending and savings products, cash and treasury operations, technology, data management and transformation.

Richard Baxter

Director - Credit

DR

Joined: May 2021

Richard has over 35 years' commercial, risk and business change experience, across the asset based lending ("ABL"), SME finance and the wider banking spaces. Richard has previously held roles at Aldermore where he led the portfolio risk team, covering the invoice and specialist finance product lines. Before Aldermore, he built a strong portfolio of experience at the Royal Bank of Scotland in its ABL, invoice discounting and working capital product divisions. Richard is a Trustee of the charity Chrysalis Prevention of Men's Suicide.

James Felton

Director - Corporate Development

DR

Joined: February 2023

James has over 12 years of experience in regulated financial services across the UK and Europe advising lenders on strategy, growth, partnerships and M&A opportunities. Prior to joining DF Capital, James previously served as Chief Operating Officer and Board Director for White Oak UK, the UK non-bank SME lender, and before that spent 7 years within the Financial Services M&A team at KPMG, where he qualified as a Chartered Accountant.

Corvin Baks

Director - Product

Joined: August 2017

Corvin joined DF Capital shortly after the business was founded in 2016. Over the last 17 years he had various commercial leadership roles within financial services and SME lending, such as GE Capital in Europe, Australia and New Zealand. Corvin has a proven track record in business development and is specialised in the origination, structuring and delivery of distribution finance and working capital solutions.

Dave Burton

Director - Financial Planning and Analysis

Joined: August 2018

Dave has more than 20 years' financial services experience, including 8 years at Aldermore Bank, as well as spending time with the Bank of Scotland, Freedom Finance Group and KPMG Transaction Services. Dave has worked across a number of finance disciplines, including FP&A, financial control and has extensive M&A experience. Dave qualified as a Chartered Accountant with Coopers & Lybrand.

Karen D'Souza

General Counsel and Company Secretary

Joined: January 2023

Karen has 10 years' experience at Addleshaw Goddard working principally on general banking, corporate restructuring and debt advisory matters. This was followed by a role as Head of Legal (Transactions) working across transactions, investments, and general corporate advisory and governance matters at a pan-European investment fund manager.

Management Committees

Executive Committee ("ExCo")

ExCo is the senior management committee with responsibility for supporting the CEO in managing and conducting DF Capital's business as designated by the Board. ExCo reviews and manages DF Capital's financial performance, risk management framework and the overall running of the business.

Key responsibilities of ExCo include:

- Meeting the strategic direction and objectives agreed by the Board by developing and delivering the operating plan and budget for DF Capital as necessary;
- Oversee the Company's financial performance, including reviews of monthly management accounts, annual forecasts, plans and budgets, multi-year strategic planning, financial accounts, annual reports and Pillar 3 disclosures;
- Oversee the Company's operations, including monthly reporting on operational performance, product development, and oversight of IT, systems data management and outsourcing, and acting as necessary to deliver agreed objectives;
- Monitor the Company's performance of its obligations under the Senior Management and Certification Regimes, including the management responsibilities map and the allocation of prescribed responsibilities;
- Ensure that products, promotions, systems, procedures, processes (including sales processed) are effective in delivering the Company's business activities compliantly within applicable regulation and regulatory limits/ratios and to the DR and BCP arrangements;
- Cascade through the Company 'culture and tone' set by the Board relating to the conduct of business;
- Review reports and approve where appropriate the recommendations from management committees, operational forums, internal or external audit, and ensuring appropriate actions are taken.

In addition to the general legal and regulatory responsibilities of executive directors set out in their Senior Manager's Regime ("SMR") Statement of Responsibilities, executive directors' more specific responsibilities under the QCA Code include:

- The executive directors of the Company are charged with the delivery of the business model within the strategy set by the Board;
- Executive directors keep the chair and NEDs up to date with operational performance, risks, and other issues to ensure that the business remains aligned with the strategy.

ExCo is chaired by the CEO.

ExCo meets on a monthly basis (at least 10 times per year).

Executive Risk Committee ("ERC")

ERC has responsibility for oversight and control of all risk types, supporting the CRO, in accordance with Board approved risk policies and limits. ERC reviews and recommends the RMF for approval by the Board together with its underlying policies and procedures. ERC also ensures that the ICAAP, ILAAP, Solvent Wind-down and Recovery Plans, and Resolution Packs reflect DF Capital's strategies, policies, processes, and systems relating to risk management.

ERC also reviews DF Capital's ongoing compliance related to Anti-Money Laundering ("AML"), Treating Customers Fairly and other regulatory requirements.

Key responsibilities of the ERC include:

- Overseeing the development, implementation, and maintenance of the Group's overall Risk Management Framework and its risk appetite, strategy, principles and policies to ensure that they are in line with regulatory expectations and industry best practice;
- Recommending, for approval by the Board, all risk related policies, on at least an annual basis;
- Reviewing the risks arising in the business, the adequacy of associated controls and limits, and making appropriate recommendations to BRC when deemed to challenge the accepted risk appetite;
- Reviewing the Risk Appetite metrics and controls to maintain the risk profile within the Board approved risk appetites;
- Implementing corporate governance, AML and compliance procedures and reviewing DF Capital's compliance with regulatory requirements; and
- Monitoring appropriate disclosure to the Board of areas of governance and compliance.

ERC is chaired by the CRO.

ERC meets on a monthly basis (at least 10 times per year).

Asset and Liability Committee ("ALCo")

ALCo is a subcommittee of ERC and oversees the activities of the treasury function, supporting the CFO, in managing the Company's market and liquidity risk management activities. It reviews and proposes liquidity risk appetite statement and limits, for approval by the Board. ALCo also ensures that the ICAAP, ILAAP, Solvent Wind-down and Recovery Plans, and Resolution Packs reflect DF Capital's strategies, policies, processes, and systems relating to the management of Liquidity and Capital Risk, before recommendation for approval by the Board.

Key responsibilities of ALCo include:

- Overseeing the activities of treasury and ALM ("Asset and Liability Management") function;
- Overseeing the utilisation of capital; monitoring of capital in line with the agreed strategy and appetite;
- Recommending strategies for managing DF Capital's assets and liabilities, market risks, trading and funding activities, capital, and liquidity;
- Establishing policies and limits within which the Company's asset and liability management strategies are to be executed; reviewing the asset-liability profile in line with the wider risk profile of DF Capital;
- Reviewing the investment portfolio and the review of counterparties used for investment;
- Reviewing and recommending, for approval by the Board, liquidity, and market risk related policies and the ILAAP, on at least an annual basis;
- Reviewing and recommending, for approval by the Board, the capital requirements in support of the ICAAP, on at least an annual basis; and
- Overseeing management of liquidity and market risk to ensure adherence to the appetite and policy.

ALCo is chaired by the CFO.

ALCo meets on a monthly basis (at least 10 times per year).

Credit Committee

The Credit Committee is a subcommittee of ERC and has responsibility for oversight and control of credit risk and portfolio management (under its Oversight Credit Committee function) and has authority for the approval of large or complex credit transactions (under its Transactional Credit Committee function).

Key responsibilities of the Credit Committee include:

Oversight Credit Committee

- Overseeing credit risk and portfolio management risk metrics including risk ratings, sector concentrations, and large exposures;
- Overseeing the management of watchlist, arrears and forbearance;
- Reviewing regular sector deep dives;
- Overseeing asset audit activity;
- Horizon scanning of internal and external factors impacting credit risk;
- Overseeing credit strategy, adherence to risk appetite, and credit policy exceptions.

Transactional Credit Committee

- Reviewing and approving large or complex credit transactions.

Oversight Credit Committee meets (at least) monthly and is chaired by the Head of Credit Risk Oversight

Transactional Credit Committee meets as and when required and is chaired by the Director – Credit.

Disclosure Committee (“DisCo”)

DisCo is established by the CEO, under delegated authority from the Board, to assist him in the discharge of his duties. DisCo is responsible for overseeing the disclosure of information by the Company as a listed entity.

Key responsibilities of DisCo include:

- Overseeing the disclosure of information by the Company, to meet its obligations under the Market Abuse Regulation (596/2014) which is part of domestic UK law pursuant to the Market Abuse (Amendment) (EU Exit) Regulations (SI 2019/310) (“UK MAR”) (“the Market Abuse Regulation” or “MAR”), as detailed in the Company’s MAR Policy;
- DisCo’s responsibilities cover procedures, systems, and controls for the identification, treatment, and disclosure of inside information and for complying with the obligations falling on the Company and its directors and employees under MAR;
- DisCo agenda includes regulatory announcements, shareholder circulars, prospectuses and other documents the Company is required to disclose to the market under any legal or regulatory requirements.

DisCo is chaired by the CEO.

DisCo meets on an ad-hoc basis and as necessary to deal with market disclosures.

Section 172 Statement

Section 172 of the Companies Act 2006 requires the Directors to have acted in a way that they considered, in good faith, to be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have due regard, amongst other matters, to: the likely consequences of any decision in the long term; the interests of the Group‘s employees; the need to foster the Group‘s business relationships with suppliers, customers and others; the impact of the Group‘s operations on the community and the environment; the desirability of the Group maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Group.

Careful consideration is given by the Board, and by management acting under delegated authority from the Board to the factors set out above in discharging their duties under section 172. The stakeholders we consider in this regard are our customers, our employees, our regulators, and our shareholders.

The Board recognises building strong relationships with all stakeholders will help deliver the firm’s longer-term strategy, whilst operating in line with the firm’s stated values and ensuring sustainability of our business model.

The governance framework of the Group supports the Directors in discharging their responsibilities and aligns their decision making with s.172. Due consideration to all stakeholders is a focal point of all Board and Executive committee meetings. As a maturing listed and licensed bank, the Directors continue to evolve and improve oversight of the firm’s activities and interactions with its stakeholder groups, together with their understanding of the impact of Board decisions on those groups. Below are some examples of stakeholder engagement undertaken in 2023.

Employees

The Board recognises that much of the firm’s success is due to the quality of our people; their level of engagement and the conduct disciplines they employ. The Board receives an ‘Our people’ dashboard showing key statistics on employee-related matters to guide wider decision making. The Board regularly receives presentations from members of the wider team, not just executive management.

We participated in the “Best Companies to Work For” survey for the third consecutive year in 2023 and were delighted to receive 3-star accreditation (Prior year: 2-star), the highest award possible, demonstrating world class levels of employee engagement. The Board uses these surveys to analyse what is working well and to identify areas needing improvement to ensure our people remain committed to the success of the Group.

As a small firm, Executive Directors are accessible and visible to all employees which allows feedback to flow freely, this included a Q&A session with all employees. The Group’s whistleblowing champion, independent NED Nicole Coll, is required to engage with whistleblowing investigations, supporting colleagues directly and actively raising awareness of the whistleblowing process across the firm.

The wellbeing and mental health of our workforce is front of mind, being carefully supported through our People team and additional access to employee helplines and healthcare support. Our onboarding process ensures new employees are adequately supported on joining the firm and can assimilate the Group’s culture whether in the office or homeworking.

During 2023, for the fourth consecutive year, the Group gave share options to all employees (excluding Executive Directors), giving them ownership in the business and aligning them with our business goals. The Group also offers employees the opportunity to participate in a Save As You Earn share scheme. The Board believes that share ownership is a key part of our recruitment, retention and reward strategy.

We worked throughout the year to support various charitable and community initiatives, increasing our paid volunteering leave to four days to provide more time for our workforce to establish meaningful connections across the community. During 2023 the entire DF Capital workforce volunteered for 350 hours in one day across Manchester as part of our Mega Giveback campaign. Our people have dedicated 230 hours to support local food banks. Additionally, we continued our support for Wood Street Mission, through toy collections, a successful fundraising initiative including over 90 hours of volunteering at their headquarters.

Further information on key outputs in relation to our employees can be found in the Sustainability section of this report, pages 23-37.

Customers

The Board receives insight from the commercial team on customer sentiments and trends. The Board encourages development and innovation in the firm's lending proposition, which has seen new technologies deployed to meet client needs. The Board reviews the firm's annual customer insight surveys to best understand if the firm is providing the right products and quality of service to its customers. The Group received a customer satisfaction rating (net promoter score) exceeding most sector comparisons at +37 for 2023.

In respect of the retail deposit activities, the Board receive regular updates on the deposit raising and sentiments from customers including details of the Feefo customer satisfaction scores. The Group has been awarded Feefo's "Platinum Trusted Service Award 2024" in light of the ratings and reviews received from its personal savings customers over a sustained period. At the close of 2023 the Group enjoys a Feefo customer satisfaction rating of 4.7 out of 5.

The Corporate Governance Framework includes a strong customer focus, embracing the values of New Consumer Duty, Treating Customers Fairly ("TCF") and Conduct Risk. KPIs and metrics around these areas are reported to the Risk Committee to assess ongoing compliance and identifying trends.

Further information on key outputs in relation to our customers can be found in the Sustainability section of this report, pages 23-37.

Shareholders

Fulfilling the firm's strategy depends significantly on the support of its shareholders. The Board receives regular updates from the Chief Executive Officer and the Head of Investor Relations including a note of views expressed by shareholders during meetings held with Directors or as reported to Directors through the Company's brokers, together with copies of analysts' notes, press articles and other relevant information.

Direct shareholder representation has been provided by Haakon Stenrød, a representative of the company's largest shareholder (Watrium AS), who was appointed to the Board in May 2020, pursuant to a Relationship Agreement with the shareholder and the Company.

The Board's primary engagement with investors comes through the Group's Chief Executive Officer, Chief Financial Officer and Head of Investor Relations who meet with existing and potential investors to present the Group's results and strategic updates. A combined total of over 40 meetings were held with existing and prospective institutional shareholders. The Group's Chair also met a number of our shareholders during the year. In addition, Board members were available to meet shareholders in person at the AGM.

Further information on key outputs in relation to our shareholders can be found in the Sustainability section of this report, pages 23-37.

Regulators

The Group is subject to the regulation of both the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") and has a duty to engage transparently and proactively with them. The Executive Directors have regular interactions with both the PRA and FCA providing updates on performance and strategic developments. In line with its oversight of the firm's operations, the Board regularly receives regulatory submissions and policy revisions from executive management and accordingly conducts appropriate consideration, review, and challenge of those documents, drawing on their extensive experience in the regulated banking environment.

Decision making

All the decisions we make consider the regulatory context and the full range of stakeholders mentioned previously. The example below shows how Directors have had regard to matters set out in section 172(1)(a)-(f) when discharging their duties under section 172 and the effect on the key strategic decision taken by them during the year in respect of the application to obtain Tier 2 capital from British Business Investments.

Stakeholder	Considerations
Customers	With the implementation of the ENABLE Guarantee Scheme the Tier 2 capital facility could support growth of the Group's loan book up to c£0.8bn without the requirement for any additional equity capital. This allows us to significantly grow lending over the medium term and, therefore, support the working capital and borrowing needs of more customers including entering new sectors with the existing core product and to consider new product development in adjacent markets that support manufacturers and dealers.
Employees	The associated incremental capacity to achieve growth is a clear indication to our employees of the ambitions and potential of the Group given this additional lending capacity from the Tier 2 Capital Facility. Combined with the capital efficiencies from utilising the ENABLE Guarantee Scheme it provides the additional capacity to bring the Group's strategic plan to life and offer other products and services across a wider cohort of sectors. These factors provide greater employment certainty for our employees with more role developmental opportunities.
Regulators	We kept the PRA regularly informed of our progress through the Tier 2 application process, with a successful application being incorporated in our ICAAP and capital plan provided to the PRA.
Shareholders	Having considered the context of the prevailing share price together with the timing of the previous capital raise and secondary placing, the Board determined that a non-dilutive capital efficiency strategy should continue to be pursued to support the firm's growth ambitions. The Board considered that a Tier 2 raise together with the utilisation of the BBB ENABLE Guarantee Scheme would enable the loan book to grow to c£0.8bn. A loan book of c£0.8bn would be expected to generate greater profitability, returns on equity, and improve other key performance metrics for investors, thus enabling the next phase of the firm's strategic plan as shared with investors. Additionally, at a loan book of c.£0.8bn, the financial characteristics of the Group would allow it to achieve further organic growth at a slower, but healthy rate without the need to raise additional Tier 1 capital, which is a key consideration for existing/prospective investors. The Group keeps investors informed of all capital planning considerations at the interim and full year results presentations and informs them via Regulated News Service (RNS) notifications of any material strategic changes outside of these times.

Ktwo trailer

Compliance with section 172 of the Companies Act 2006

The Directors confirm that they have acted in a way that they consider, in good faith, to be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others; the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Group.

Detail on how the Directors have had regard to the factors in section 172 of the Companies Act 2006 when performing their duties and the Directors' statement required under section 414CZA of the Companies Act 2006 are set out on pages 91-93.

Non-financial information statement

The Group has complied with the requirements of S414CB of the Companies Act 2006 by including:

- The Group's business model is covered in the Strategic Report and is also laid out on page 6;
- Information regarding the following matters, including a description of relevant policies, the due diligence process followed in pursuance of the policies and outcomes of those policies, can be found in the following sections of this report:
    - Environmental matters in the Acting Sustainably section;
    - Employees in the Acting Sustainably section;
    - Social matters in the Acting Sustainably section;
    - Respect for human rights in the Acting Sustainably section; and
    - Anti-corruption and anti-bribery matters in the Risk Management at DF Capital section.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found in the Risk Management at DF Capital section, including a description of how the principal risks are managed;
- All key performance indicators of the Group, including those non-financial indicators are contained throughout this Strategic Report.

Cautionary statement

This Strategic Report has been prepared solely to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Group.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Report of the Directors

Report of the Directors

The Directors present their Annual Report on the affairs of the Group, together with the consolidated financial statements, company financial statements and auditor's report, for the year ended 31 December 2023.

Details of significant subsequent events are contained in note 45 to these consolidated financial statements. An indication of likely future developments in the business of the Group are included in the Strategic Report section.

Information about the use of financial instruments by the Group is detailed within note 39 to the consolidated financial statements.

Principal activity

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.

Results and dividends

The total comprehensive profit for the year, after taxation, amounted to £3,338,000 (2022: £9,682,000). The Directors do not recommend the payment of a dividend (2022: £nil).

In the year ended 31 December 2023, the Group recognised a significant increase in expected credit loss provision to a total of £9.8m (2022: £0.7m) in respect of RoyaleLife as detailed in note 3.2. In the year ended 31 December 2022, the Group recognised a significant deferred taxation asset of £9m as detailed in note 16. The effect of these significant movements has been removed in the below table to present total comprehensive income for the periods on a more consistent basis:

	2023 £'000	2022 £'000
Total comprehensive profit after taxation	3,338	9,682
of which, includes:		
Deferred taxation asset recognition	-	9,043
RoyaleLife provision movement	(9,092)	(611)
	(9,092)	**8,432**
Comparative total comprehensive profit after taxation	**12,430**	**1,250**

Directors'

The Directors who held office during the year and up to the date of the Directors' report were as follows:

Mark Stephens
Sheryl Lawrence
Nicole Coll
Thomas Grathwohl
Haakon Stenrød
Carl D'Ammassa
Gavin Morris

Directors' shareholdings

As at 31 December 2023, the Directors held the following ordinary shares in the Company:

Director	Position	No. of ordinary shares	Voting rights (%)
Mark Stephens	Independent Board Chair	62,500	0.03%
Thomas Grathwohl	Independent Non-Executive Director	533,312	0.30%
Carl D'Ammassa	Chief Executive Officer	509,591	0.28%
Gavin Morris	Chief Financial Officer	384,026	0.21%

Significant shareholders

As at 31 December 2023, the following parties held greater than 3% of issued share capital in the Company in accordance with the requirements of Rule 5 of the Disclosure Guidance and Transparency Rules:

	No. of ordinary shares	Voting rights(%)
Watrium AS	26,646,093	14.86%
Davidson Kempner Capital Management	17,599,990	9.81%
Liontrust Asset Management	17,210,479	9.60%
Lombard Odier Asset Management	16,606,408	9.26%
River Global	13,000,000	7.25%
Janus Henderson Investors	10,667,749	5.95%
Premier Miton Investors	7,974,000	4.45%
UBS Securities	7,535,704	4.20%
BlackRock Investment Management	7,460,000	4.16%
CRUX Asset Management	5,941,454	3.31%
M&G Investments	5,500,000	3.07%
Allianz Global Investors	5,400,000	3.01%

Political and charitable donations

The Group made charitable donations of £11,703 (2022: £3,569) and no political donations during the year ended 31 December 2023 (2022: £nil).

Annual General Meeting

The Company anticipates holding its Annual General Meeting in June 2024. The Notice of AGM and Form of Proxy will be posted to shareholders in due course and a copy will be available at www.dfcapital-investors.com. The AGM will be held at the Company's registered office in Manchester.

Directors' insurance and indemnities

The Group has maintained Directors and Officers liability insurance for the benefit of the Group, the Directors, and its officers. The Directors consider the level of cover appropriate for the business and will remain in place for the foreseeable future.

Statement of Going Concern

The Directors have completed a formal assessment of the Group's financial resources. 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. See note 1.6 for further details.

Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Corporate Governance

The Corporate Governance Report on pages 61-95 contains information about the Group's corporate governance arrangements.

Subsequent events

Details relating to significant events occurring between 31 December 2023 and the date of approval of the financial statements are detailed further within Note 45 of the consolidated financial statements.

Disclosure of information to the auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Reappointment of auditor

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 8 April 2024 and signed on its behalf by:

Carl D'Ammassa
Director

8 April 2024

Registered number: 11911574

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom adopted International Accounting Standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The Directors have chosen to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss of the Group for the year.

In preparing these consolidated financial statements and Company financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

Each of the persons who is a Director at the date of approval of this report confirms, to the best of their knowledge, that:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the Company 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 annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Independent Auditor's Report to the Members of Distribution Finance Capital Holdings plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Distribution Finance Capital Holdings Plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;
- the consolidated related notes 1 to 45
- the parent company statement of financial position;
- the parent company cash flow statement;
- the parent company statement of changes in equity; and
- the parent company related notes 1 to 15

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

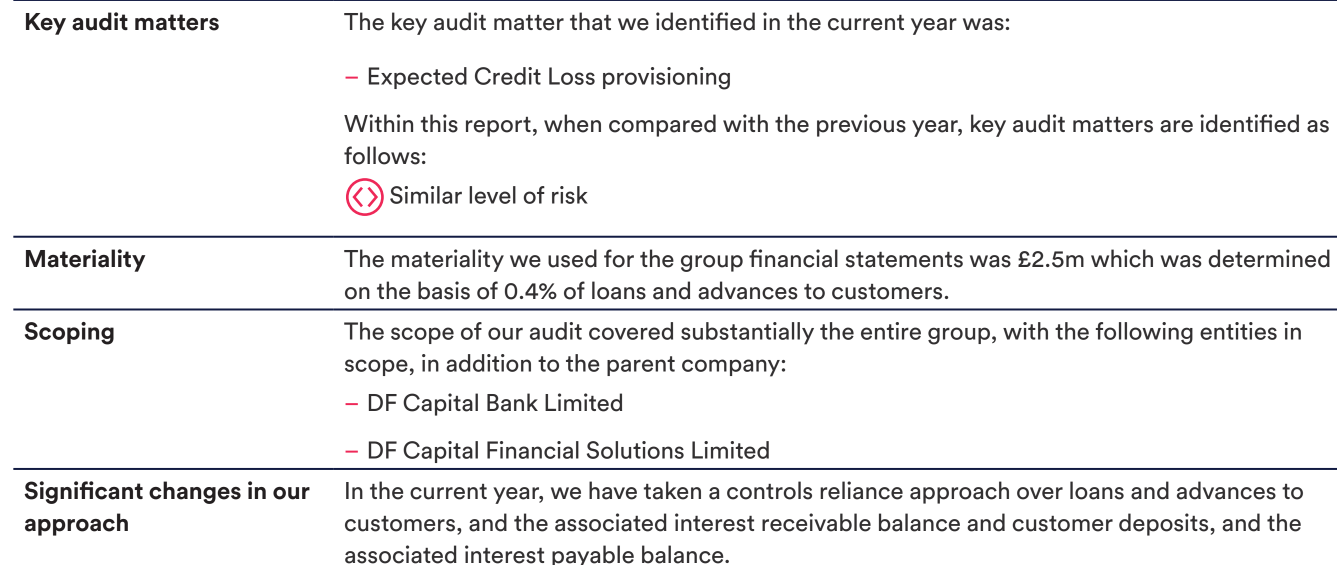
2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach



Key audit matters	The key audit matter that we identified in the current year was: – Expected Credit Loss provisioning Within this report, when compared with the previous year, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality we used for the group financial statements was £2.5m which was determined on the basis of 0.4% of loans and advances to customers.
Scoping	The scope of our audit covered substantially the entire group, with the following entities in scope, in addition to the parent company: – DF Capital Bank Limited – DF Capital Financial Solutions Limited
Significant changes in our approach	In the current year, we have taken a controls reliance approach over loans and advances to customers, and the associated interest receivable balance and customer deposits, and the associated interest payable balance.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of management's going concern assessment in order to assess the key judgements and assumptions made by management;
- Independently evaluating the assumptions used in management's forecasts and stress scenarios, including obtaining an understanding of the relevant controls over management's assessment of going concern;
- with the assistance of our prudential regulatory risk specialists, reading the most recent ICAAP and ILAAP documents, and assessing management's capital and liquidity projections, key liquidity risk drivers, and the results of management's reverse stress testing;
- holding discussions directly with the Prudential Regulatory Authority; and
- evaluating the appropriateness of disclosures in relation to going concern in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Expected Credit Loss provisioning

Key audit matter descriptions	As stated in note 20, the group has a gross Loans and Advances to Customers balance of £584.1m (2022: £441.3m) and associated Expected Credit Losses ("ECL") of £14.6m (2022: £3.7m), representing 2.50% of the total Loans and Advances to Customers balance (2022: 0.84%). As detailed in the summary of critical accounting judgements and estimates in note 3, the estimation of ECL is inherently uncertain and requires significant management judgement. The key judgement in the assessment of ECL for the group is the loss given default ("LGD") assumption for originated loans, being the estimation of sales proceeds realised from collateral held against these loans. As detailed in note 39, collateral is held against all of the loans and, at 31 December 2023, 96.6% of the loan portfolio was fully collateralised (2022: 99.4%). However, there is a risk that the LGD is understated due to either a reduction in the value of the collateral, including consideration of any forced sale discount in the event that the group takes possession of the collateral, or that the collateral cannot be realised in the event of default (e.g., if the collateral has been "sold out of trust" by the dealer). In addition, as detailed in the Chief Executive Officer's Report, there has been a deterioration in the prospects for full recovery of the exposure to Royale Park Homes Limited and associated companies ("Royale"). Given the material amount of the exposure and the uncertainty related to the amount of ultimate recoveries, there is significant judgement involved in determining an appropriate amount of ECL for this exposure. We have, therefore, identified ECL provisioning as a key audit matter, particularly in relation to the potential risk of error in or manipulation of the LGD assumptions in the ECL model and the determination of an appropriate ECL provision for the ultimate recoveries expected from Royale.
How the scope of our audit responded to the key audit matter	We gained an understanding of the relevant internal controls over the calculation of ECL for loans originated by the group in accordance with IFRS 9. **LGD – existence and valuation of collateral** For a sample of loans, we tested the existence of the assets held by assessing whether the collateral was appropriately identified as part of management asset verification audits; and For a sample of loans, we have tested the existence and valuation of assets held by confirming to original purchase invoices, recent realisation value for similar assets and assessing market indicators for each asset type for signs of distress or deterioration on future asset prices. **LGD – collateral haircut and Sales out of Trust assumptions** We have utilised our credit modelling specialists to assess management's methodology for determining LGD collateral haircuts and challenged the appropriateness of the haircuts applied to each asset type; We have challenged management's assumptions in relation to the level of likely assets sold out of trust ("SOT"), with reference to recent historical actual experience and other available industry benchmarks on future market conditions for each of the asset types; We have recalculated management's collateral haircut percentage for each asset type to confirm the mechanical accuracy of the model inputs; and We have assessed whether the underlying data feeding into management's LGD calculations are subject to manipulation and bias.
How the scope of our audit responded to the key audit matter (continued)	**Royale provision** We challenged the appropriateness of the individually assessed ECL provision for Royale by determining the valuation attributed to the amount of unprovided exposure based on cash settlement agreements and cash collateral held that will be utilised against the outstanding exposure; We reviewed the legal and other correspondence to date associated with Royale to assess the feasibility of current workout options and whether they had been appropriately reflected in determining the ECL provision; We assessed the gross debt outstanding as at the year end, by reconciling the prior year audited gross exposure to the current year gross exposure and obtaining a breakdown of all payments received in the year and agreeing these to bank statements; and We evaluated the appropriateness of the disclosures in the financial statements.
Key observations	Based on the work performed, we are satisfied that management's approach to the determination of ECL is compliant with IFRS 9 and we concluded that the ECL provision and the related disclosures as at 31 December 2023 are appropriate.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£2.5m (2022: £3.4m)	£2.4m (2022: £3.3m)
Basis for determining materiality	0.4% of gross loans and advances to customers (2022: 0.8% of gross loans and advances to customers) The reduction in the benchmark percentage is driven by the significant increase in the loans and advances to customers balance year on year and applying our judgement to determine an appropriate percentage to plan and perform an appropriate level of audit work.	Parent company materiality is capped at 95% of group materilaity. This approach is in line with prior year. We note that this equates to less than 3% of shareholders' equity of the parent company.
Rationale for the benchmark applied	We believe that loans and advances to customers is the primary focus of the users of the financial statements and therefore is the most appropriate benchmark upon which to base materiality.	The parent company primarily holds investments in group entities and, therefore, shareholders equity is considered to be the key focus for users of the financial statements.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 70%) of group materiality £1.75m (2022: £2.38m)	70% (2022: 70%) of parent company materiality £1.68m (2022: £2.31m)
Basis and rationale for determining performance materiality	In determining performance materiality, we considered our risk assessment, including our understanding of the business, consideration of the group's control environment and the nature, volume and size of misstatements (corrected and uncorrected) in the previous audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £125,000 (2022: £170,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing risks of material misstatement at a group level. Based on that assessment, we performed an audit of the parent company and significant components. This provided 100% (2022: 100%) coverage of revenue, profit before tax, and net assets of the group, executed at levels of materiality applicable to each individual entity which were lower than group materiality.

We, as the group auditor, were responsible for performing the audit of each subsidiary entity within the group. At the group level we also tested the consolidation process.

7.2. Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used for the financial reporting, lending and deposits cycles. For these controls we involved our IT specialists to test the general IT controls, including testing user access and change management systems.

In the current year, we have relied on controls for loans and advances to customers and the associated interest receivable and customer deposits and the associated interest payable.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements. The group continues to develop its assessment of the potential impacts of climate related risks, as outlined on pages 52-53.

As a part of our audit, we have obtained an understanding of the potential climate-rated risks and performed our own qualitative risk assessment of the potential impact of these risks on the group's account balances and classes of transactions. We have read the disclosures in the Annual Report to consider whether it is materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, prudential risk, economic, credit modelling and other industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: determination of the Expected Credit Loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act 2006, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulations set out by the FCA and the PRA, including those relating to regulatory capital and liquidity requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified expected credit loss provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and performing audit tests to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee, in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulatory Authority, the Financial Conduct Authority and HMRC to identify any significant transactions or matters that may have not been reported in the financial statements due to fraud; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Opinion on other matters prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 42 to the financial statements for financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Manbhinder Rana (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

08 April 2024

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Consolidated Statement of Comprehensive Income

	Note	2023 £'000	2022 £'000
Interest and similar income	4	59,970	25,407
Interest and similar expenses	6	(22,336)	(6,411)
Net interest income		**37,634**	**18,996**
Fee income	7	1,393	1,348
Fee expenses	8	(719)	-
Net losses on disposal of financial assets at fair value through other comprehensive income	21	-	(17)
Net (losses)/gains from derivatives and other financial instruments at fair value through profit or loss	22	(303)	99
Other operating income		9	5
Total operating income		**38,014**	**20,431**
Staff costs	9	(13,431)	(10,848)
Other operating expenses	11	(8,412)	(5,983)
Net impairment loss on financial assets	14	(11,598)	(2,296)
Total operating profit		**4,573**	**1,304**
Profit before taxation		**4,573**	**1,304**
Taxation (charge)/credit	16	(1,418)	8,457
Profit after taxation		**3,155**	**9,761**
Other comprehensive income/(loss):			
Items that may subsequently be transferred to the income statement:			
FVOCI debt securities:			
Amounts transferred to the income statement		-	17
Fair value movements		183	(96)
Total other comprehensive income/(loss) for the year, net of tax		**183**	**(79)**
Total comprehensive income for the year		**3,338**	**9,682**
Earnings per share:		**pence**	**pence**
Basic EPS	40	1.8	5.4
Diluted EPS	40	1.7	5.4

The notes on pages 116-179 are an integral part of these financial statements.

The financial results for all periods are derived entirely from continuing operations.

Consolidated Statement of Financial Position

	Note	2023 £'000	2022 £'000
Assets			
Cash and balances at central banks		89,552	107,353
Loans and advances to banks	28	3,475	3,848
Debt securities	21	14,839	22,964
Derivatives held for risk management	22	537	57
Loans and advances to customers	20	568,044	435,883
Trade and other receivables	24	5,335	1,524
Current taxation asset	25	55	55
Deferred taxation asset	27	7,111	8,457
Property, plant and equipment	17	1,145	1,045
Right-of-use assets	18	1,227	433
Intangible assets	19	618	877
Total assets		**691,938**	**582,496**
Liabilities			
Customer deposits	35	574,622	479,736
Derivatives held for risk management	22	565	42
Fair value adjustments on hedged liabilities	23	424	(84)
Financial liabilities	36	1,255	445
Trade and other payables	38	4,297	6,041
Provisions	13	67	77
Current taxation liability	26	73	-
Subordinated liabilities	37	10,221	-
Total liabilities		**591,524**	**486,257**
Equity			
Issued share capital	31	1,793	1,793
Share premium	31	-	39,273
Merger relief	31	94,911	94,911
Merger reserve	33	(20,609)	(20,609)
Own shares	32	(401)	(364)
Retained earnings/(loss)		24,720	(18,765)
Total equity		**100,414**	**96,239**
Total equity and liabilities		**691,938**	**582,496**

The notes on pages 116-179 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 8 April 2024. They were signed on its behalf by:

Carl D'Ammassa
Director

8 April 2024

Registered number: 11911574

Consolidated Statement of Changes in Equity

	Issued share capital £'000	Share premium [3] £'000	Merger relief £'000	Merger reserve £'000	Own shares [2] £'000	Retained earnings/ (loss) £'000	Total £'000
Balance at 1 January 2022	**1,793**	**39,273**	**94,911**	**(20,609)**	**(364)**	**(28,946)**	**86,058**
Profit after taxation	-	-	-	-	-	9,761	9,761
Other comprehensive loss	-	-	-	-	-	(79)	(79)
Total comprehensive income	-	-	-	-	-	**9,682**	**9,682**
Share-based payments	-	-	-	-	-	499	499
Balance at 31 December 2022	**1,793**	**39,273**	**94,911**	**(20,609)**	**(364)**	**(18,765)**	**96,239**
Profit after taxation	-	-	-	-	-	3,155	3,155
Other comprehensive income	-	-	-	-	-	183	183
Total comprehensive income	-	-	-	-	-	**3,338**	**3,338**
Share-based payments [1]	-	-	-	-		905	905
Employee Benefit Trust [2]	-	-	-	-	(37)	(31)	(68)
Share premium account cancellation [3]	-	(39,273)	-	-	-	39,273	-
Balance at 31 December 2023	**1,793**	**-**	**94,911**	**(20,609)**	**(401)**	**24,720**	**100,414**

1. Refer to note 10 for details on share-based payments during the year.
2. The Group has adopted look-through accounting (see note 1.3) and recognised the Employee Benefit Trust as Own Shares. Refer to note 32 for further details of the movements in the year.
3. In the year ended 31 December 2023, the Company cancelled its share premium account – refer to note 31 for details.

The notes on pages 116-179 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	2023 £'000	2022 £'000
Cash flows from operating activities:			
Profit before taxation		4,573	1,304
Adjustments for non-cash items and other adjustments Included in the income statement	29	13,000	4,664
Increase in operating assets	29	(149,456)	(193,189)
Increase in operating liabilities	29	94,171	183,809
Taxation received	25	-	4
Net cash used in operating activities		**(37,712)**	**(3,408)**
Cash flows from investing activities:			
Purchase of debt securities	21	(14,554)	-
Proceeds from sale and maturity of debt securities	21	23,000	85,070
Interest received on debt securities	21	383	746
Purchase of own shares	32	(67)	-
Purchase of property, plant and equipment	17	(418)	(1,041)
Purchase of intangible assets	19	(117)	(193)
Net cash generated from investing activities		**8,227**	**84,582**
Cash flows from financing activities:			
Repayment of lease liabilities	34	(227)	(141)
Issuance of subordinated liabilities	37	10,000	-
Acquisition of subordinated liabilities	29	(51)	-
Net cash from/(used in) financing activities		**9,722**	**(141)**
Net (decrease)/increase in cash and cash equivalents		**(19,763)**	**81,033**
Cash and cash equivalents at start of the year	29	110,630	29,597
Cash and cash equivalents at end of the year	**29**	**90,867**	**110,630**

Notes to the Financial Statements

1. Basis of preparation

1.1 General information

The 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, which together form the "Group".

DFCH plc is registered and incorporated in England and Wales whose company registration number is 11911574. The registered office is St James' Building, 61-95 Oxford Street, Manchester, England, M1 6EJ. The Company's ordinary shares are listed on the Alternative Investment Market ("AIM") of 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 banking group. The Group provides niche working capital funding solutions to dealers and manufacturers, enabled by competitively priced personal savings products.

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

1.2 Basis of preparation

The Group consolidated financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the United Kingdom (UK) and interpretations issued by the IFRS Interpretations Committee (IFRS IC).

The consolidated and Company financial statements are prepared on a going concern basis and under the historical cost convention except for the treatment of certain financial instruments, including the revaluation of debt securities held at fair value through other comprehensive income (FVTOCI), and derivative contracts and other financial assets or liabilities held at fair value through profit or loss (FVTPL).

By including the Company financial statements, here together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

For the year ended 31 December 2023, DF Capital Financial Solutions Limited (Company number: 14891201) was exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Companies Act 2006. The Company, as the ultimate parent company, is providing a guarantee for DF Capital Financial Solutions Limited in accordance with section 479C of the Companies Act 2006 as at 31 December 2023.

1.3 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Accounting policies of the Company and its subsidiaries are consistent. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Upon consolidation, all intra-group transactions, balances, income, and expenses are eliminated within the consolidated financial statements within this Annual Report and Financial Statements. The consolidated financial statements contained in this Annual Report consolidate the statements of total comprehensive income, statements of financial position, cash flow statements, statements of changes in equity and related notes for Distribution Finance Capital Holdings plc, DF Capital Bank Limited and DF Capital Financial Solutions Limited, which together form the "Group", which have been prepared in accordance with applicable IFRS accounting standards. Accounting policies have been applied consistently throughout the Group and its subsidiaries.

The Group's Employee Benefit Trust (EBT) is controlled and recognised by the Company using the look-through approach, i.e. as if the EBT is included within the accounts of the Company.

1.4 Adoption of new and revised standards and interpretations

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2023

Improvements to the Conceptual Framework, as well as amendments to IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRS 9 Financial Instruments become effective in the current year. None of these amendments to IFRS impacted the Group's reported earnings, financial position or reserves, or the accounting policies.

IAS 16 was amended to prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Group has not sold any fixed assets of a material amount in the past, so this amendment has no material impact on the Group' financial statements.

The annual improvements to IFRS clarifies fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability for derecognition of financial liabilities in terms of IFRS 9 Financial Instruments. These fees include only those paid or received between the borrower and the lender. For lease incentives, the annual improvement removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16. The amendments are not expected to have a significant impact on the annual financial statements.

International financial reporting standards issued but not yet effective which are applicable to the Group

New Accounting Standard	Description of change	Effective Date	Expected Impact on the Group
Amendments to classification of liabilities as current or noncurrent (IAS 1)	The IAS 1 amendments clarify the requirements for classifying liabilities as current or non-current. More specifically: The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments clarify the situations that are considered settlement of a liability.	Annual periods commencing on or after 1 January 2024.	The Group presents its assets and liabilities in order of liquidity in its statement of financial position. This impact of this amendment would impact the disclosure of current versus non-current liabilities in the notes to the financial statements. The Group does not expect this amendment to have a significant impact on the annual financial statements.
Amendments to IFRS 16 – Lease liability in a sale and lease back	The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and lease back transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.	Annual periods commencing on or after 1 January 2024.	The amendments are not expected to have a significant impact on the annual financial statements.

1.5 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.

1.6 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 for a period of at least 12 months from the date of approval of the financial statements. In making this assessment the Directors have considered:

- The Group's financial projections;
- The Group's current available capital and liquidity resources and surplus over regulatory and risk appetite requirements;
- The stress testing and capital and liquidity planning performed as a part of the ICAAP and ILAAP indicate adequate capital and liquidity buffers and the ability to effectively manage stresses and resources. A number of severe and plausible scenarios were considered as part of the stress testing process including a combination of severe idiosyncratic and macroeconomic scenarios which included the potential impact of the cost of living crisis on our dealers;
- Recent failures in the banking sector and any implications for the Group. This included consideration of our deposit base which is made up entirely of retail customers of which 96% are fully covered by the Financial Services Compensation Scheme ('FSCS'). The liquid assets of the Group being predominantly either cash held at the Bank of England or in UK government gilts. The Group's asset and liability maturity profile;
- In respect of climate change, the Board recognises the long-term risks and these are considered as part of the annual ICAAP.

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 financial statements.

Information on the Group's business strategy, performance and outlook are detailed in the Chair's Statement, Chief Executive Officer's review and Chief Financial Officer's review. The Risk Overview sections further detail the key risks faced by the Group and mitigants and provides an overview of the Group's Risk Management Framework.

1.7 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 on the critical accounting estimates and judgements used within these financial statements.

1.8 Foreign currency translation

The financial statements are expressed in Pound 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 reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the statement of income.

2. Summary of significant accounting policies

2.1 Revenue recognition

Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or measured or designated as at fair value through profit and loss ("FVTPL") are recognised in "Net interest income" as "Interest income" and "Interest expenses" in the income statement using the effective interest method.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

In calculating the EIR, management have taken into consideration the behavioural characteristics of the underlying loans in the lending portfolio which includes evaluating the expected duration of loans and any additional behavioural fees.

The EIR is adjusted where there is a movement in the reference interest rate (SONIA, or base rate) affecting portfolios with a variable interest rate which will impact future cash flows.

The interest income/expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (that is, to the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities.

For credit-impaired financial assets, as defined in the financial instruments accounting policy, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (that is, to the gross carrying amount less the allowance for expected credit losses ("ECLs").

Interest income on debt securities is included in interest and similar income. Interest on derivatives is included in interest and similar income or interest and similar expenses charges following the underlying instrument it is hedging.

Fee income

All fee income relates to fees charged directly to customers based on their credit facility. These fees do not meet the criteria for inclusion within interest income. The Group satisfies its performance obligations as the services are rendered. These fees are billed in arrears of the period they relate to.

Fee income is recognised in accordance with IFRS 15 which sets out the principles to follow for revenue recognition which takes into consideration the nature, amount, timing and uncertainty of revenue and cash flows resulting from a contract with a customer. The accounting standard presents a five-step approach to income recognition to enable the Group to recognise the correct amount of income in the corresponding period(s):

- the contract has been approved by the parties to the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;
- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance; and
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

All other income is currently recognised under IFRS 9 under the effective interest rate methodology, however, when new fees are implemented, they will be assessed as to whether they fall under IFRS 9 (EIR) or IFRS 15. IFRS 9 and IFRS 15 have been applied consistently to all the financial periods presented.

Fee expense

Fee and commission expense predominantly consists of non-incremental fees in relation to financial guarantee schemes, undrawn facility commitment facility fees, introducer commissions, and other non-incremental direct costs. Where these fees and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable, they are recognised within fee and commission expense as the services are received.

Net gains / (losses) from derivatives and other financial instruments at fair value through profit or loss

Net gains/(losses) from derivatives and other financial instruments at fair value through profit or loss relate to non-trading derivatives held for risk management purposes. It includes all realised and unrealised fair value movements, interest and foreign exchange differences.

Other income from financial instruments

Debt securities are measured at fair value through other comprehensive income. The securities are measured at their closing bid prices at the reporting date with any unrealised gain or loss recognised through other comprehensive income. Once the assets have been disposed, the corresponding realised gain or loss is transferred from other comprehensive income into the income statement.

Other operating income

Other operating income predominantly consists of payroll subsidies, specifically in relation to Statutory Maternity/Paternity Pay (SMP/SPP) as levied by HM Revenue & Customs.

2.2 Property, plant and equipment

All property, plant and equipment is stated at historical cost (or deemed historical cost) less accumulated depreciation, and less any identified impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value on a straight-line basis at the following annual rates:

Fixtures & fittings	3 years
Computer equipment	3 years
Telephony & communications	3 years
Leasehold improvements	1 - 10 years
Motor vehicles	3 years

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. All current lease agreements have a maximum lease term of 7 years. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Useful economic lives and estimated residual values are reviewed annually and adjusted as appropriate.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds less any costs of disposal and the carrying amount of the asset, which is recognised in the Income Statement.

2.3 Intangible assets

Computer software

Computer software which has been purchased by the Group from third party vendors is measured at initial cost less accumulated amortisation and less any accumulated impairments.

Computer software is estimated to have a useful life of 3 years with no residual value after the period. These assets are amortised on a straight-line basis with the useful economic lives and estimated residual values being reviewed annually and adjusted as appropriate.

Internally generated intangible assets

Internally generated intangible assets are only recognised by the Group when the recognition criteria have been met in accordance with IAS 38: Intangible Assets as follows:

- expenditure can be reliably measured;
- the product or process is technically and commercially feasible;
- future economic benefits are likely to be received;
- intention and ability to complete the development; and
- view to either use or sell the asset in the future.

The Group will only recognise an internally generated asset should it meet all the above criteria. In the event of a development not meeting the criteria it will be recognised within the consolidated income statement in the period incurred.

Capitalised costs include all directly attributable costs to the development of the asset. Internally generated assets are measured at capitalised cost less accumulated amortisation less accumulated impairment losses.

The internally generated asset is amortised at the point the asset is available for use or sale. The asset is amortised on a straight-line basis over the useful economic life with the remaining useful economic life and residual value being assessed annually. The estimated useful economic life of internally generated assets is 3-5 years with no expected residual balance.

Any subsequent expenditure on the internally generated asset is only capitalised if the cost increases the future economic benefits of the related asset. Otherwise, all additional expenditure should be recognised through the income statement in the period it occurs.

2.4 Financial instruments

Initial recognition

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are respectively added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are not directly attributable to the acquisition of financial assets and financial liabilities at FVTPL are recognised immediately in the consolidated income statement.

Classification

The Group classifies financial instruments based on the business model and the contractual cash flow characteristics of the financial instruments. Under IFRS 9, the Group classifies financial assets into one of three measurement categories:

- **Amortised cost** – assets in a business model whose objective is to hold financial assets to collect contractual cash flows, where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The Group classifies non-derivative financial liabilities as measured at amortised cost.
- **Fair value through other comprehensive income (FVOCI)** – assets held in a business model whose objective is to collect contractual cash flows and sell financial assets where the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. The Group measures debt securities under this category.
- **Fair value through profit or loss (FVTPL)** – assets not measured at amortised cost or FVOCI. The Group measures derivatives under this category.

The Group has no non-derivative financial assets or liabilities classified as held for trading.

The Group reassesses its business models each reporting period.

The Group classifies certain financial instruments as equity where they meet the following conditions:

- the financial instrument includes no contractual obligation to deliver cash or another financial asset on potentially unfavourable conditions;
- the financial instrument is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- the financial instrument is a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Financial assets - measurement

I. Financial assets measured at amortised cost

These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount, less impairment provisions for expected losses. The losses arising from impairment are recognised in the income statement and disclosed with any other similar losses within the line item "Net impairment loss on financial assets".

Financial assets measured at amortised cost mainly comprise loans and advances to customers, loans and advances to banks, and other receivables.

II. Fair value through other comprehensive income (FVTOCI)

These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset.

Subsequently, they are measured at fair value based on current, quoted bid prices in active markets for identical assets that the Group can access at the reporting date. Where there is no active market, or the debt securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment provisions for expected losses are recognised in the income statement which does not reduce the carrying amount of the investment security but is transferred from the FVOCI reserve in equity. Other fair value movements are recognised in other comprehensive income and presented in the FVOCI reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

FVTOCI financial assets includes debt securities in the form of UK Treasury Bills and UK Gilts. These assets are not classified as: loans and receivables; held-to-maturity investments; or financial assets at fair value through profit or loss.

Regular purchases and sales of debt securities are recognised on the trade date at which the Group commits to purchase or sell the asset.

III. Financial assets at fair value through profit or loss (FVTPL)

These are measured both initially and subsequently at fair value with movements in fair value recorded in the income statement. Any costs that are directly attributable to their acquisition are recognised in profit or loss when incurred. The Group only measures derivative financial assets under this classification.

Financial assets - impairment

The Group recognises loss allowances for expected credit losses ("ECLs") on the following financial instruments that are not measured at FVTPL:

- Financial assets measured at amortised cost;
- Debt securities measured at fair value through other comprehensive income; and
- Loan commitments

IFRS 9 permits entities to apply a 'simplified approach' for trade receivables, contract assets and lease receivables. The simplified approach permits entities to recognise lifetime expected losses on all these assets without the need to identify significant increases in credit risk. The Group has adopted this simplified approach for assessing trade and other receivables balances. The Group confirms these trade and other receivable balances do not contain a significant financing component.

With the exception of purchased or originated credit impaired ("POCI") financial assets (which are considered separately below), ECLs are measured through loss allowances calculated on the following bases.

ECLs are a probability-weighted estimate of the present value of credit losses. The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The loss allowance is measured as the difference between the contractual cash flows and the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

A financial asset that gives rise to credit risk, is referred to (and analysed in the notes to this financial information) as being in "Stage 1" provided that since initial recognition (or since the previous reporting date) there has not been a significant increase in credit risk, nor has it has become credit impaired.

For a Stage 1 asset, the loss allowance is the "12-month ECL", that is, the ECL that results from those default events on the financial instrument that are possible within 12 months from the reporting date.

A financial asset that gives rise to credit risk is referred to (and analysed in the notes to this financial information) as being in "Stage 2" if since initial recognition there has been a significant increase in credit risk (SICR) but it is not credit impaired.

For a Stage 2 asset, the loss allowance is the "lifetime ECL", that is, the ECL that results from all possible default events over the life of the financial instrument.

A financial asset that gives rise to credit risk is referred to (and analysed in the notes to this financial information) as being in "Stage 3" if since initial recognition it has become credit impaired.

For a Stage 3 asset, the loss allowance is the difference between the asset's projected exposure at default (EAD) and the present value of estimated future cash flows discounted at an applicable EIR. Further, the recognition of interest income is constrained relative to the amounts that are recognised on Stage 1 and Stage 2 assets, as described in the revenue recognition policy set out above.

If circumstances change sufficiently at subsequent reporting dates, an asset is referred to by its newly appropriate Stage and is re-analysed in the notes to the financial information.

Where an asset is expected to mature in 12 months or less, the "12-month ECL" and the "lifetime ECL" have the same effective meaning and accordingly for such assets the calculated loss allowance will be the same whether such an asset is at Stage 1 or Stage 2. In order to determine the loss allowance for assets with a maturity of 12 months or more, and disclose significant increases in credit risk, the Group nonetheless determines which of its financial assets are in Stages 1 and 2 at each reporting date.

Significant increase in credit risk – policies and procedures for identifying Stage 2 assets

Whenever any contractual payment is past due, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition in order to determine whether credit risk has increased significantly.

See note 39 for further details about how the Group assesses increases in significant credit risk.

Definition of a default

Critical to the determination of significant increases in credit risk (and to the determination of ECLs) is the definition of default. Default is a component of the probability of default (PD), changes in which lead to the identification of a significant increase in credit risk, and PD is then a factor in the measurement of ECLs.

The Group's definition of default for this purpose is:

- A counterparty defaults on a payment due under a loan agreement and that payment is more than 90 days overdue;
- The collateral that secures, all or in part, the loan agreement has been sold or is otherwise not available for sale and the proceeds have not been paid to the Group; or
- A counterparty commits an event of default under the terms and conditions of the loan agreement which leads the lending company to believe that the borrower's ability to meet its credit obligations to the Group is in doubt.

The definition of default is similarly critical in the determination of whether an asset is credit-impaired (as explained below).

Credit-impaired financial assets – policies and procedures for identifying Stage 3 assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. IFRS 9 states that evidence of credit-impairment includes observable data about the following events:

- A counterparty is 90 days past due for one or more of its loan receivables;
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default (as defined above) or past due event, or
- The Group, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the Group would not otherwise consider.

The Group assesses whether debt instruments that are financial assets measured at amortised cost or at FVTOCI are credit-impaired at each reporting date. When assessing whether there is evidence of credit-impairment, the Group takes into account both qualitative and quantitative indicators relating to both the borrower and to the asset. The information assessed depends on the borrower and the type of the asset. It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired.

See note 39 for further details about how the Group identifies credit impaired assets.

Purchased or originated credit-impaired ("POCI") financial assets

POCI financial assets are treated differently because they are in Stage 3 from the point of original recognition. It is not in the nature of the Group's business to purchase financial assets originated by other lenders, nor has the Group to date originated any loans or advances to borrowers that it would define as credit impaired.

Movements back to stages 1 and 2

Exposures will move out of stage 3 to stage 2 when they no longer meet the criteria for inclusion and have completed a minimum 3-month probation period as set according to the type of lending and default event circumstances. Movement into stage 1 will only occur when the SICR criteria are no longer met.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
- For loan commitments: as a provision.

Revisions to estimated cash flows

Where cash flows are significantly different from the original expectations used to determine EIR, but where this difference does not arise from a modification of the terms of the financial instrument, the Group revises its estimates of receipts and adjusts the gross carrying amount of the financial asset to reflect actual and revised estimated contractual cash flows. The Group recalculates the gross carrying amount of the financial asset as the present value of the estimated future contractual cash flows discounted at the financial instrument's original EIR.

The adjustment is recognised in the consolidated income statement as income or expense.

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing a financial asset are renegotiated without the original contract being replaced and derecognised. A modification is accounted for in the same way as a revision to estimated cash flows, and in addition;

- Any fees charged are added to the asset and amortised over the new expected life of the asset, and
- The asset is individually assessed to determine whether there has been a significant increase in credit risk.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the income statement.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in the consolidated statement of comprehensive income. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Write-offs

Loans and advances are written off when the Group has no reasonable expectation of recovering the financial asset; either in its entirety or a portion of it. This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from enforcement activities will result in impairment gains.

Financial guarantees, letters of credit and undrawn loan commitments

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in note 39.

Forward-looking macroeconomic scenarios

ECLs and SICR take into account forecasts of future economic conditions in addition to current conditions. The Group has developed a macroeconomic model which adjusts the ECLs calculated by the credit models to provide probability weighted numbers based on a number of forward-looking macroeconomic scenarios.

Due to the assumptions and estimates within these forward-looking macroeconomic scenarios, refer to note 3 for further details of the Group's approach.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments. Gains or losses on financial liabilities are recognised in the consolidated statement of comprehensive income.

Subordinated liabilities

Subordinated notes issued by the Group are assessed as to whether they should be treated as equity or financial liabilities. Where there is a contractual obligation to deliver cash or other financial assets, they are treated as a financial liability and measured at amortised cost using the EIR method after taking account of any discount or premium on the issue and directly attributable costs that are an integral part of the EIR. The amount of any discount or premium is amortised over the period to the expected call date of the instrument.

All subordinated notes issued by the Group are classified as financial liabilities.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an instrument contains no obligation on the Group to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, or where the instrument will or may be settled in the Group's own equity instruments but includes no obligation to deliver a variable number of the Group's own equity instruments, then it is treated as an equity instrument. Accordingly, the Group's share capital are presented as components of equity and any dividends, interest or other distributions on capital instruments are also recognised in equity. Any related tax is accounted for in accordance with IAS 12.

Financial liabilities - measurement

Financial liabilities are classified as either financial liabilities measured at amortised cost or financial liabilities at FVTPL.

I. Financial liabilities measured at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost. Any difference between the fair value and the redemption value is recognised in the income statement over the period of the borrowings using the EIR method.

Interest bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in "Interest and similar expenses" in the Income Statement.

II. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss may include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

During the periods presented the Group has held no financial liabilities for trading, nor designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ('the cash-generating unit').

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of assets in the unit (or group of units) on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.5 Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to manage its exposure to interest rate risk. In accordance with the Group Treasury Policy, the Group does not hold or issue derivative financial instruments for proprietary trading.

Derivative financial instruments are recognised at their fair value with changes in their fair value taken to profit or loss. Fair values are calculated by discounting cash flows at the prevailing interest rates. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative. If a derivative is cancelled, it is derecognised from the Consolidated Statement of Financial Position. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.6 Hedge accounting

Due to the simplistic nature of the Group's hedging activities, the Group has adopted to apply IFRS 9 for portfolio assets and liabilities being hedged by applying fair value hedge accounting.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective, the strategy in undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship, as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the movements in the fair value of the respective hedged items during the period for which the hedge is designated.

The Group considers the following as key sources of hedge ineffectiveness:

- the mismatch in maturity date of the swap and hedged item, as swaps with a given maturity date cover a portfolio of hedged items which may mature throughout the month;
- the actual behaviour of the hedged item differing from expectations, such as early repayments or withdrawals and arrears; and
- minimal movements in the yield curve leading to ineffectiveness where hedge relationships are sensitive to small value changes.

Where there is an effective hedge relationship for fair value hedges, the Group recognises the change in fair value of each hedged item in profit or loss with the cumulative movement in their value being shown separately in the Consolidated Statement of Financial Position as fair value adjustments on hedged assets and liabilities. The fair value changes of both the derivative and the hedge substantially offset each other to reduce profit volatility.

The Group discontinues hedge accounting when the derivative ceases through expiry, when the derivative is cancelled or the underlying hedged item matures, is sold or is repaid.

If a derivative no longer meets the criteria for hedge accounting or is cancelled whilst still effective, the fair value adjustment relating to the hedged assets or liabilities within the hedge relationship prior to the derivative becoming ineffective or being cancelled remains on the Consolidated Statement of Financial Position and is amortised over the remaining life of the hedged assets or liabilities. The rate of amortisation over the remaining life is in line with expected income or cost generated from the hedged assets or liabilities. Each reporting period, the expectation is compared to actual with an accelerated run-off applied where the two diverge by more than set parameters.

Fair value hedge accounting for portfolio hedges of interest rate risk

The Group applies fair value hedge accounting for portfolio hedges of interest rate risk. As part of its risk management process, the Group identifies portfolios whose interest rate risk it wishes to hedge. The portfolios comprise of only liabilities. The Group analyses each portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates as the hedged item an amount of the liabilities from each portfolio that it wishes to hedge.

The amount to hedge is determined based on a movement in the present value of the Group's balance sheet under a 200-basis point shift in the yield curve being used to value the instruments to ensure the mismatches in expected repricing buckets are within the limits set by the Board on the sensitivity analysis approach using a hypothetical shift in interest rates.

The Group measures monthly the movements in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as a separate item, 'Fair value adjustment for portfolio hedged risk', either within assets or liabilities as appropriate.

The Group measures the fair value of each hedging instrument monthly. The value is included in derivatives held for risk management in either assets or liabilities as appropriate, with the change in value recorded in net gains from derivatives and other financial instruments at fair value through profit or loss in the income statement. Any hedge ineffectiveness is recognised in net gains/(losses) from derivatives and other financial instruments at fair value through profit or loss in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

2.7 Current and deferred income tax

Income tax on the result for the period comprises current and deferred income tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax liabilities are recognised for all taxable temporary differences.

The Company and its UK subsidiaries are in the same VAT group.

2.8 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory deposits held with central banks, mandatory deposits held with central banks in demand accounts and amounts due from banks with an original maturity of less than three months that are available to finance the Group's day-to-day operations.

2.9 Employee benefits – pension costs

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have a legal or constructive obligation to pay further amounts. Contributions to defined contribution schemes are charged to the statement of comprehensive income as they become payable in accordance with the rules of the scheme. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

2.10 Share-based payments

The Group has a number of long-term incentive share schemes for all employees, including some Directors, whereby they have been granted equity-settled share-based payments in the Group. The share schemes all have vesting conditions with some schemes for senior management being subject to specific performance conditions. All share schemes are equity settled share-based payments.

The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). Fair value is measured by use of the Black-Scholes option pricing model. The variables used in the model are adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The share-based payments are recognised as staff costs in the income statement and expensed on a straight-line basis over the vesting period, based on estimates of the number of shares which may eventually vest. The amount recognised as an expense is adjusted to reflect differences between expected and actual outcomes, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and specific performance conditions at the vesting date. The change in estimations, if any, is recognised in the income statement at the time of the change with a corresponding adjustment in equity through the retained earnings account.

It is assumed where the Company grants awards to employees of the Company and its subsidiaries, the employee offers services to the respective employing entity only. Where the Company satisfies awards granted to an employee of its subsidiary, there is no obligation for the subsidiary to reimburse the Company. Consequently, all share-based payments are considered equity-settled with any awards to an employee of its subsidiary being deemed a capital contribution with

a corresponding debit to investment in subsidiaries. As the Company is settling these awards through its own equity instruments, there is a corresponding credit to the retained earnings account. The Company recognises the expense of share-based payments in the respective entity of the employee.

See note 10 for further details on the share schemes.

2.11 Leasing

The Group presently is only a lessee with lease agreements with third-party suppliers. It does not hold any lessor contracts with customers.

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

Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. The Group assesses on a lease-by-lease payments the contractual terms of the lease and likelihood of the Group enacting on available extension and break clauses within the lease in order to determine the expected applicable term of the lease. Once determined, the Group analyses the expected future payments of the lease over this applicable term, which are discounted. The interest rate used to discount the cashflows is the interest rate implicit to the lease agreement. Where this is not available, the Group has applied their incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst other variables. The interest expense of the lease liability is calculated under the effective interest rate where the interest expense equates to the lease payments over the remaining term.

Right-of-use asset

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The cost at initial recognition is calculated as the initial lease liability plus initial direct costs, expected restoration costs and remaining prepayment balances at the commencement date.

The right-of-use asset is subsequently measured at cost, less accumulated depreciation, and any accumulated impairment losses. Any remeasurement of the lease liability results in a corresponding adjustment to the right-of-use asset.

The Company calculates depreciation of the right-of-use asset in accordance with IAS 16 ‘Property, Plant and Equipment’ and is consistent with the depreciation methodology applied to other similar assets. All leases are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the right-of-use asset.

Restoration costs will be estimated at initial application and added to the right-of-use asset and a corresponding provision raised in accordance with IAS 37 ‘Provisions, contingent liabilities, and contingent assets. Any subsequent change in the measurement of the restoration provision, due to a revised estimation of expected restoration costs, is accounted for as an adjustment of the right-of-use asset.

Short-term leases and leases of low value assets

The Group leases some smaller asset classes, such as computer hardware, which either has a value under £5,000 per annum or has a lease period of 12 months or shorter. For such leases, the Group has elected under IFRS 16 rules to treat these as operating leases and hold off-balance sheet. These leases are charged to the income statement on a straight-line basis over the lease term.

2.12 Provisions for commitments and other liabilities

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (discounted at the Company’s weighted average cost of capital when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

2.13 Operating segments

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

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. As a result, the chief operating decision maker uses only one segment to control resources and assess the performance of the entity, while deciding the strategic direction of the Group.

2.14 Earnings per share

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

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

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

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

2.15 Merger relief

Merger relief is relief granted under the Companies Act 2006 section 612 which removes the requirement for the Company to recognise the premium on issued shares to acquire another company within the share premium account. Merger relief is recognised where all the following criteria are satisfied:

- The Company secures at least a 90% equity holding of all share classes in another company as part of the arrangement; and
- The Company provides either of the following as consideration for the allotment of shares in the acquired company:
    - Issue or transfer of equity shares in the Company in exchange for equity shares in the acquired company; or
    - The cancellation of any such shares in the acquired company that the Company does not already hold.

2.16 Merger accounting

Business combination and merger accounting

IFRS 3 Business Combinations prescribes the accounting treatment for business combinations, however, the change in control and ownership of a company under common control is outside the scope of IFRS 3 Business Combinations. In the absence of appropriate IFRS, the Directors sought other applicable accounting standards, and elected to apply FRS 102 in the form of Merger Accounting which provides accounting guidance for transactions of this nature.

The principles of merger accounting are as follows:

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

By way of using the merger accounting methodology for preparing these consolidated financial statements, comparative information will be prepared as if the Group had existed and been formed in prior periods. The Directors agree this will enable informative comparatives to users given the underlying activities and management structure of the Group remain largely unchanged following the formation of the Group.

Merger reserve

Where merger accounting has been applied this prescribes that any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity at the date of transaction is included in equity in retained earnings or in a separate reserve account. Therefore, on consolidation of the Group financial statements, the difference between the consideration paid and the book value of the acquired entity is recognised as a Merger Reserve, in accordance with relevant accounting standards relating to businesses under common control.

2.17 Own Shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue, or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue, or cancellation of own equity instruments.

Own shares represents shares of the Company that are held by the Employee Benefit Trust.

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.

Judgements

The Group has made the following key judgements in applying the accounting policies:

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.

The Group has aligned its assessment of significant increases in credit risk to its internal threshold criteria for prompting customer pricing reviews for consistency.

Due to the short-term behavioural term of the current lending portfolio, the Group has not applied a probationary ("cooling off") period to exposures which are no longer triggering the stage 2 threshold criteria so these will move back to stage 1 once the classification criteria is no longer met.

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 within the next financial year:

3.2. Expected credit losses loan impairment

Probability of default ("PD")

In the absence of sufficient internal historical default data, the Group uses an external credit rating agency to provide credit ratings and corresponding probability of defaults ("PDs") for the vast majority of the Group's counterparties. These are "Through-the-Cycle" PDs which represents a long-run average probability of default, opposed to Point-in-Time PDs which are shorter term and partially reflect the current economic outlook. Further, the primary data points which impact credit ratings and PDs are derived from past events, therefore, PDs are inherently a lagging indicator of expected default activity over the following 12 month period and longer.

Consequently, the Group utilises external macro-economic forecast data sourced from an external economics research company to adjust PDs from Through-the-Cycle to Point-in-Time, and further consider how default activity may evolve in the future. Following this exercise, as at 31 December 2023 the Group has applied a c.34% scalar increase to its PDs as opposed to a c.40% scalar increase as at 31 December 2022.

A 100% deterioration in PDs (excluding stage 3 exposures, which are already in default) would result in an additional impairment charge of £1,901,000 at 31 December 2023 (31 December 2022: £1,130,000).

Loss given default ("LGD")

The Group reviewed its LGD modelling assumptions as at 31 December 2023 by comparing observed loss given default rates against modelled LGD. The Group analyses historical default events by different sectors, products, and counterparty activity to validate whether its current LGD methodology is reasonable. The Group may apply managerial overlays to its LGD assumptions to accommodate for deviations in expected LGD rates over the following 12-month period and longer from historical observed LGD rates.

Although the Group has observed strong performance in default recoveries within the year ended 31 December 2023, the Group has elected to review its LGD modelling assumptions to reflect an uncertain economic outlook, specifically within industries identified as having higher potential loss rates. 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.

A 10% reduction in the expected discounted cashflows from the collateral held by the Group would result in an additional impairment charge of £967,000 at 31 December 2023 (31 December 2022: £2,389,000).

The Group's arrears balance includes c£10m in respect of RoyaleLife. As set out in the Chief Executive Officer's Report, given the unique circumstances associated with this arrears case, including the challenges involved in repayment recoveries across the entire cohort of lenders, and significant parts of RoyaleLife entering into administration, it was determined prudent to materially provide against the outstanding balance after consideration of cash collateral.

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.

The following forward-looking macroeconomic scenarios, together with their probability weighting and key economic variables, were used in calculating the ECLs used for determining impairment provisions:

Scenario	Probability Weighting (%)	ECL Impairment (£'000)	ECL Coverage[1] (%)
31 December 2023			
Upside	20%	13,181	2.22%
Base	50%	13,816	2.33%
Downside	20%	15,243	2.57%
Severe downside	10%	20,037	3.38%
Weighted Total	**100%**	**14,596**	**2.46%**
31 December 2022			
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.

The following table details the additional impairment allowance charge/(credit) should one of the macroeconomic scenarios be assigned a 100% probability weighting:

Scenario	2023 £'000	2022 £'000
Upside	(1,415)	(1,293)
Base	(780)	(897)
Downside	647	1,623
Severe downside	5,441	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.

The following sensitivities have been modelled to demonstrate the impact of changes in assumptions on the recoverability of deferred tax assets within the Bank:

- A reduction in the base forecast loan book by 20% each year.
- A reduction in the net interest margin in the base forecast by a factor of 10% each year.
- An increase in forecast costs of risk by a factor of 50% each year.
- A 20% increase above forecast of staff costs and other operating expenses each year.

In each of the individual sensitivities performed above, the reduction in profitability means the timing of full recovery of the deferred tax asset is delayed, but in all cases it is expected to be fully utilised within 5 years and, therefore, the Board is satisfied that these sensitivities do not impact the level of deferred tax asset to be recognised at 31 December 2023.

In the year ended 31 December 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.

The Group has an unrecognised deferred tax asset of £0.7m (2022: £0.7m). This unrecognised deferred tax asset as at December 2023 relates entirely to the prior taxable losses in Distribution Finance Capital Holdings plc entity.

4. Interest and similar income

	2023 £'000	2022 £'000
At amortised cost (using effective interest rate method):		
On loans and advances to customers	55,203	24,333
On loans and advances to banks	4,246	1,065
	59,449	**25,398**
At FVOCI:		
On debt securities	521	9
Total interest and similar income	**59,970**	**25,407**

5. Operating segments

It is the Director's 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. 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. For this purpose, the chief operating decision maker of the Group is the Board of Directors.

6. Interest and similar expenses

The Group is solely funded by customer deposits and Group reserves. See note 35 and 36 for further detail of the movements in customer deposits and financial liabilities during the year.

	2023 £'000	2022 £'000
At amortised cost (using effective interest rate method):		
On customer deposits	21,799	6,373
On subordinated liabilities	269	-
	22,068	**6,373**
At FVTPL:		
Net interest expense on financial instruments hedging liabilities	268	38
Total interest and similar expense	**22,336**	**6,411**

7. Fee income

	2023 £'000	2022 £'000
Facility-related fees	1,393	1,348
Total fee income	**1,393**	**1,348**

8. Fee expense

	2023 £'000	2022 £'000
Enable guarantee charges	648	-
Financial guarantee charges	19	-
Undrawn commitment facility fees	8	-
Non-incremental direct costs	44	-
Total fee expense	**719**	**-**

In the year ended 31 December 2023, the Group entered into a number of financial guarantee schemes which allows the Group to reduce its regulatory capital requirements. The Group is charged facility and commitment fees for these schemes which are not considered as integral to the effective interest rate of loans and advances to customers.

The Group recognised £44,000 in the year ended 31 December 2023 in relation to directly attributable non-incremental costs for the issuance of financial instruments.

9. Staff costs

Analysis of staff costs:

	2023 £'000	2022 £'000
Wages and salaries	10,437	8,651
Share-based payments	905	499
Contractor costs	22	75
Social security costs	1,314	1,099
Pension costs arising on defined contribution schemes	753	524
Total staff costs	**13,431**	**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.

Average number of persons employed by the Group (including Directors):

	2023 No.	2022 No.
Management	13	12
Finance	8	7
Credit & Risk	26	19
Sales & Marketing	35	29
Operations	28	23
Technology	16	13
Total average headcount	**126**	**103**

Directors' emoluments:

	Fees/basic salary £'000	Bonuses £'000	Employer pension contributions £'000	Benefits in kind £'000	Long term incentive schemes £'000 [2]	2023 total £'000	2022 total £'000
Executive Directors:							
Carl D'Ammassa	444	311	44	9	-	808	831
Gavin Morris	286	102	29	10	-	427	419
	730	**413**	**73**	**19**	**-**	**1,235**	**1,250**
Non-executive Directors:							
Mark Stephens	150	-	-	-	-	150	150
Thomas Grathwohl	75	-	-	-	-	75	75
Nicole Coll	85	-	-	-	-	85	54
Sheryl Lawrence	95	-	-	-	-	95	60
Haakon Stenrød[1]	-	-	-	-	-	-	-
	405	**-**	**-**	**-**	**-**	**405**	**339**
Total Director remuneration	**1,135**	**413**	**73**	**19**	**-**	**1,640**	**1,589**

1. Haakon Stenrød holds his position as Non-Executive Director by virtue of major shareholding by Watrium AS exercising their right to appoint a Director under their Relationship Agreement. He is compensated by Watrium AS.

2. Taxable gain on share awards exercised during the year.

The pension for the year ended 31 December 2023 to Carl D'Ammassa and Gavin Morris of £44,000 (2022:£43,000) and £29,000 (2022:£26,000) respectively is the sum of payments made to these individuals in lieu of Group pension contributions.

Carl D'Ammassa and Gavin Morris have received share options as part of long-term incentive schemes – further details of these share option schemes can be found in note 10.

Carl D'Ammassa is the highest paid Director with total remuneration of £808,000 (2022: £831,000) in the year ended 31 December 2023. Carl D'Ammassa has been awarded share options of which none have been exercised yet as at 31 December 2023 (2022: nil). Refer to note 10 for further details of these awards.

10. Share-based payments

The share-based payment expense during the year comprised the following:

	2023 £'000	2022 £'000
Performance Share Plan (PSP)	860	489
Sharesave Scheme (SAYE)	45	10
Total share-based payments expense	**905**	**499**

The Group has the following share options scheme for employees which have been granted and remain outstanding at 31 December 2023:

Plan	No. of options outstanding 31 December 2023	Options outstanding value 31 December 2023 £'000	Grant dates	Vesting dates	Exercise price	Performance conditions attached	Settlement method	Charge for year ended 31 December 2023 £'000
General Award 2020	143,350	54	Jun-20	Jun-23	Nil	No	Equity	6
General Award 2021	134,130	69	Jun-21	Jun-24	Nil	No	Equity	21
General Award 2022	337,422	60	May-22	May-25	Nil	No	Equity	37
General Award 2023	325,739	23	Apr-23	Apr-26	Nil	No	Equity	23
Manager CSOP Award	384,298	31	Aug-20 Aug-20 Aug-20	Jun-21 Jun-22 Jun-23	40.5p	No	Equity	2
Manager PSP Award	821,668	333	Aug-20 Aug-20 Aug-20	Aug-20 Jun-21 Jun-22	Nil	No	Equity	-
CEO Recruitment Award	900,000	338	Jun-20	Jun-23	Nil	Yes	Equity	55
Senior Manager Award 2020	581,080	211	Jun-20	Jun-23	Nil	Yes	Equity	62
Senior Manager Award 2021	113,394	61	Jun-21 Jun-21 Nov-21	Sep-22 Jun-24 Nov-24	Nil	No	Equity	18
Senior Manager Award 2022	1,314,170	255	May-22 Sep-22	May-25 Sep-25	Nil	Yes	Equity	151
Senior Manager Award 2023	5,592,609	427	Apr-23 Jul-23 Jul-23 Jul-23 Jul-23 Jul-23 Aug-23 Oct-23	Apr-26 Feb-24 Feb-25 Feb-26 Jul-26 Feb-27 Aug-26 Aug-26	Nil	Yes	Equity	420
Leader & High Performer Award 2022	200,876	36	May-22 Feb-23	May-25 May-25	Nil	No	Equity	24
Leader & High Performer Award 2023	586,820	40	Apr-23	Apr-26	Nil	No	Equity	41
Sharesave Scheme	1,418,952	55	Nov-21 Jun-22 May-23	Jan-25 Aug-25 Aug-26	46.3p 30p 30.72p	No	Equity	45
TOTAL	**12,854,508**	**1,993**						**905**

All awards are equity-settled, and the shares awarded for all schemes are Distribution Finance Capital Holdings plc ordinary shares of £0.01 each of the current share capital of the Company which are listed on the Alternative Investment Market (AIM). The awards were granted to employees and Directors within the Group with the majority of the employees being employed by DF Capital Bank Limited.

During the year ended 31 December 2023, the movements in share options granted, forfeited, and exercised were as follows:

Plan	Options outstanding at start of year No.	Options granted during the year No.	Options forfeited during the year No.	Options exercised during the year No.	Options outstanding at end of the year No.	Options exercisable at end of the year No.
Year ended 31 December 2023						
General Award 2020	222,500	-	(26,151)	(52,999)	143,350	143,350
General Award 2021	160,248	-	(26,118)	-	134,130	-
General Award 2022	385,511	-	(48,089)	-	337,422	-
General Award 2023	-	365,000	(39,261)	-	325,739	-
Manager CSOP Award	384,298	-	-	-	384,298	384,298
Manager PSP Award	853,334	-	-	(31,666)	821,668	821,668
CEO Recruitment Award	900,000	-	-	-	900,000	900,000
Senior Manager Award 2020	885,000	-	(173,200)	(130,720)	581,080	581,080
Senior Manager Award 2021	144,370	-	(11,291)	(19,685)	113,394	19,685
Senior Manager Award 2022	1,765,000	-	(450,830)	-	1,314,170	-
Senior Manager Award 2023	-	5,673,292	(80,683)	-	5,592,609	-
Leader & High Performer Award 2022	201,022	5,000	(5,146)	-	200,876	-
Leader & High Performer Award 2023	-	615,000	(28,180)	-	586,820	-
Sharesave Scheme	1,068,212	717,166	(366,426)	-	1,418,952	-
Total	**6,969,495**	**7,375,458**	**(1,255,375)**	**(235,070)**	**12,854,508**	**2,850,081**

Plan	Options outstanding at start of year No.	Options granted during the year No.	Options forfeited during the year No.	Options exercised during the year No.	Options outstanding at end of the year No.	Options exercisable at end of the year No.
Year ended 31 December 2022						
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	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	39,370
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**	**892,704**

The fair value at grant date is calculated by taking into consideration any restrictive vesting criteria, including any market and/or non-market performance conditions. The below table summarises the share schemes including the weighted average remaining contractual years and the weighted average fair value at grant date:

	2023			2022		
Plan	Options outstanding at end of the year	Weighted average remaining contractual life (years)	Weighted average fair value at grant date	Options outstanding at end of the year	Weighted average remaining contractual life (years)	Weighted average fair value at grant date
General Award 2020	143,350	-	37.50	222,500	0.5	37.50
General Award 2021	134,130	0.4	61.00	160,248	1.4	61.00
General Award 2022	337,422	1.4	37.00	385,511	2.4	37.00
General Award 2023	325,739	2.3	38.50	-	-	-
Manager CSOP Award	384,298	-	8.00	384,298	0.4	8.00
Manager PSP Award	821,668	-	40.50	853,334	-	40.50
CEO Recruitment Award	900,000	-	37.50	900,000	0.5	37.50
Senior Manager Award 2020	581,080	-	37.50	885,000	0.5	37.50
Senior Manager Award 2021	113,394	0.5	60.27	144,370	1.1	60.27
Senior Manager Award 2022	1,314,170	1.4	34.85	1,765,000	2.4	36.12
Senior Manager Award 2023	5,592,609	2.4	36.75	-	-	-
Leader & High Performer Award 2022	200,876	1.4	37.03	201,022	2.4	37.00
Leader & High Performer Award 2023	586,820	2.3	38.50	-	-	-
Sharesave Scheme	1,418,952	2.0	13.98	1,068,212	2.5	44.35
	12,854,508			**6,969,495**	**1.4**	**38.63**

Where a share award scheme has an exercise price that is equal to £nil, valuation models such as the Black Scholes valuation model cannot be used to determine the fair value of the award at the grant date, therefore, it is assumed the market price of the share is assumed to be the fair value. For schemes which have an exercise price greater than £nil, the Group has used the following variables for the respective schemes:

	Manager CSOP Award	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme
Grant date	Aug-20	Nov-21	Jun-22	May-23
Contractual life (years)	3	3	3	3
Share price at issue (pence)	40.50	57.50	37.50	38.40
Exercise price (pence)	40.50	46.30	30.00	30.72
Expected volatility (%)	30.00%	30.00%	30.00%	30.00%
Risk-free rate (%)	0.20%	0.55%	2.08%	3.91%
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%

The terms of the individual schemes are as follows:

General Award

In the year ended 31 December 2023, nil cost options over ordinary shares of £0.01 each of the current share capital of the Company were granted to all employees (excluding Directors). These options vest over a 3-year period and are not subject to specific performance conditions.

Manager PSP and CSOP Award

As part of a Group reorganisation of its existing share capital and employee loan agreements in the year ended 31 December 2020, managers and former managers were awarded share options so that they were not disadvantaged by this exercise. PSP scheme nil cost options and Company Share Option Scheme shares ("CSOP") were issued over ordinary shares of £0.01 each of the share capital of the Company. The CSOP Options have an exercise price per share of 40.5p equal to the market value of Ordinary Shares as at the time of grant and the PSP Options are nil cost options. The PSP and CSOP Options became exercisable on the same timeline, and in the same proportions, that the corresponding original Ordinary Shares would have become freely transferable on the terms on which they were held. The Options are not subject to the satisfaction of performance conditions.

The fair value of the CSOP was measured at the grant date using the Black-Scholes model - see table above for further details of the inputs into this valuation model.

No further awards under this scheme were granted in the years ended 31 December 2023 and 31 December 2022.

CEO Recruitment Award

On his appointment on 9 March 2020, Carl D'Ammassa was granted 900,000 nil cost options by way of a Recruitment Award. In the year ended 31 December 2023, the Group's Remuneration Committee agreed that the performance conditions and service conditions relating to all 900,000 shares had been fully satisfied and the award should vest in full.

Senior Manager Award

Nil cost options over ordinary shares of £0.01 each of the current share capital of the Company were granted to certain senior managers. All of these share awards have been granted in line with our PSP rules and have performance conditions aligned to financial performance, risk management and cultural objectives.

In the year ended 31 December 2023, Senior Managers were granted additional awards based on either promotion, recruitment incentives, or performance. Performance conditions are included for 4,889,000 options of the 5,673,292 awards granted in the year ended 31 December 2023, and all awards vest over a period of up to 1 to 4 years subject to service conditions being met.

Leader & High Performer Award

In the year ended 31 December 2023, the Group awarded nil cost options over ordinary shares of £0.01 each of the current share capital of the Company to non-senior managers of the Group. This scheme does not include performance conditions and vest over a period of 3 years subject to service conditions being met.

Sharesave Scheme

The Group has operated a 'Save As You Earn' scheme ('SAYE' or 'Sharesave Scheme') for several years which is available to all UK-based employees. This is a HMRC-approved share scheme, whereby the scheme allows employees to purchase options by saving a fixed amount of between £10 and £500 per month over a period of three years at the end of which the options, subject to leaver provisions, are usually exercisable. If not exercised, the amount saved is returned to the employee. During the year ended 31 December 2023, the Group has offered a scheme with a grant date of May 2023 and a vesting date of August 2027. The option price is calculated using the closing bid-market price of a Distribution Finance Capital Holdings plc ordinary share over the five dealing days prior to the Invitation Date and applying a discount of 20%.

The fair value at grant date for the schemes is calculated by using the Black-Scholes Model – see table above for further details of the inputs into this valuation model.

Director share awards:

The below table summarises share options which have been awarded to Directors as part of long-term incentive schemes:

Plan	Options outstanding at start of year No.	Options granted during the year No.	Options forfeited during the year No.	Options exercised during the year No.	Options outstanding at end of the year No.	Options exercisable at end of the year No.
Year ended 31 December 2023						
Carl D'Ammassa:						
General Award 2020	5,000	-	-	-	5,000	5,000
CEO Recruitment Award	900,000	-	-	-	900,000	900,000
Senior Manager Award 2022	400,000	-	-	-	400,000	-
Senior Manager Award 2023	-	1,168,000	-	-	1,168,000	-
Sharesave Scheme	60,000	-	-	-	60,000	-
	1,365,000	**1,168,000**	**-**	**-**	**2,533,000**	**905,000**
Gavin Morris:						
General Award 2020	5,000	-	-	-	5,000	5,000
Manager CSOP Award	74,074	-	-	-	74,074	74,074
Manager PSP Award	19,733	-	-	-	19,733	19,733
Senior Manager Award 2020	200,000	-	(69,280)	-	130,720	130,720
Senior Manager Award 2022	200,000	-	-	-	200,000	-
Senior Manager Award 2023	-	753,000	-	-	753,000	-
Sharesave Scheme	60,000	-	-	-	60,000	-
	558,807	**753,000**	**(69,280)**	**-**	**1,242,527**	**229,527**
Total Director Awards	**1,923,807**	**1,921,000**	**(69,280)**	**-**	**3,775,527**	**1,134,527**
Year ended 31 December 2022						
Carl D'Ammassa:						
General Award 2020	5,000	-	-	-	5,000	-
CEO Recruitment Award	900,000	-	-	-	900,000	-
Senior Manager Award 2022	-	400,000	-	-	400,000	-
Sharesave Scheme	-	60,000	-	-	60,000	-
	905,000	**460,000**	**-**	**-**	**1,365,000**	**-**
Gavin Morris:						
General Award 2020	5,000	-	-	-	5,000	-
Manager CSOP Award	74,074	-	-	-	74,074	-
Manager PSP Award	19,733	-	-	-	19,733	19,733
Senior Manager Award 2020	200,000	-	-	-	200,000	-
Senior Manager Award 2022	-	200,000	-	-	200,000	-
Sharesave Scheme	-	60,000	-	-	60,000	-
	298,807	**260,000**	**-**	**-**	**558,807**	**19,733**
Total Director Awards	**1,203,807**	**720,000**	**-**	**-**	**1,923,807**	**19,733**

See above section within this note for further details of the schemes, including the fair value (market price) at grant date. Performance conditions are attached to the Senior Manager Award 2023 for both Carl D'Ammassa and Gavin Morris. All awards are subject to service conditions being met over the vesting period.

11. Other operating expenses

	Note	2023 £'000	2022 £'000
Finance costs	12	76	21
Depreciation	17,18	498	318
Amortisation of intangible assets	19	376	382
Professional services expenses		2,189	1,541
Audit and accountancy fees		418	290
IT-related expenses		2,506	1,862
Other operating expenses		2,349	1,569
Total other operating expenses		**8,412**	**5,983**

12. Finance costs

	2023 £'000	2022 £'000
Interest on lease liabilities	76	21
Total finance costs	**76**	**21**

13. Provisions

Analysis for movements in other provisions:

	Leasehold dilapidations £'000
Year ended 31 December 2023	
At start of year	77
Additions	25
Utilisation of provision	-
Unused amounts reversed	(10)
Unwinding of discount	5
Lease modification	(30)
At end of year	**67**
Year ended 31 December 2022	
At start of year	73
Additions	-
Utilisation of provision	-
Unused amounts reversed	-
Unwinding of discount	4
At end of year	**77**

As detailed in note 18, the Group currently leases office premises at its Manchester headquarters. At the end of the contractual lease term in August 2030, the Group is required to return the leased premises in their original state. The Group has estimated total restoration costs of £125,000 by assessing the expected costs and through management judgement. These amounts have been discounted to present value by using an applicable discount factor.

Given the prolonged period until these costs are incurred, the current provision is using a best estimate which will be reviewed at least annually. Any potential revision in the future, including impact from continued inflationary pressures, is not considered to be material.

14. Net impairment loss on financial assets

	2023 £'000	2022 £'000
Movement in impairment allowance in the year	11,034	2,028
Write-offs	564	268
Total net impairment losses on financial assets	**11,598**	**2,296**

See note 20 on further analysis of the movement in impairment allowances on loans and advances to customers.

Analysis of write-offs:

	Note	2023 £'000	2022 £'000
Realised losses on loan receivables	20	355	186
Realised losses on trade receivables	24	8	19
Recovery transaction costs		251	63
Bad debt VAT relief		(50)	-
Total write-offs		**564**	**268**

15. Profit before taxation

Profit before taxation is stated after charging:

	2023 £'000	2022 £'000
Depreciation of property, plant and equipment	318	95
Depreciation of right-of-use assets	180	223
Amortisation of intangible assets	376	382
Allowance for credit impaired assets	11,034	2,028
Staff costs	13,431	10,848
Auditor's remuneration	418	290
	25,757	**13,866**

Analysis of auditor's remuneration:

	2023 £'000	2022 £'000
Audit services:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	72	58
Fees payable to the Company's auditor for the audit of its subsidiaries	215	177
Fees paid to the Company's auditors relating to prior periods	39	1
Total audit services fees	**326**	**236**
Assurance services:		
Interim review	92	54
Total assurance services fees	**92**	**54**
Total auditor's remuneration	**418**	**290**

16. Taxation

Analysis of tax charge recognised in the year:

	2023 £'000	2022 £'000
Current taxation charge:		
UK corporation tax on profit for the current year	73	586
Adjustments in respect of prior years	-	-
Total current taxation charge	**73**	**586**
Deferred taxation charge/(credit)		
Current year	1,345	(9,043)
Adjustments in respect of prior years	-	-
Total deferred taxation charge/(credit)	**1,345**	**(9,043)**
Total taxation charge/(credit)	**1,418**	**(8,457)**

Reconciliation of profit before taxation to total tax credit recognised:

	2023 £'000	2022 £'000
Profit on ordinary activities before taxation	4,573	1,304
Taxation on Profit on ordinary activities at standard corporation tax rate of 23.5% (2022:19%)	1,076	248
Effects of:		
Fixed asset differences	3	-
Disallowable expenses	275	118
Other permanent differences	(18)	-
Other short-term timing differences for which no deferred tax asset has been recognised	-	1
Current year losses for which no deferred tax asset has been recognised	3	219
Recognition of deferred taxation asset	-	(9,043)
Remeasurement of deferred tax for changes in tax rates	79	-
Total tax charge/(credit)	**1,418**	**(8,457)**

Current tax on profits reflects UK corporation tax levied at a rate of 23.5% for the year ended 31 December 2023 (31 December 2022: 19%). The Company is not subject to the banking surcharge levied at a rate of 3% (31 December 2022: 8%) on the profits of banking companies chargeable to corporation tax after an allowance of £100 million (31 December 2022: £25m) 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.

On 1 April 2023 the UK corporation tax rate increased from 19% to 25%. The 23.5% is based on a pro-rated tax charge of 19% to 31 March 2023 and 25% to 31 December 2023. At the same date, the Banking Surcharge was reduced from 8% to 3%, whilst the allowance increased from £25m to £100m.

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 31 December 2023, the Group has an estimated unrecognised deferred tax asset of £0.7m (31 December 2022: £0.7m) from prior taxable losses.

In the year ended 31 December 2023, the Group has recognised a deferred tax asset in respect of future taxable profits. Further detail on the deferred taxation asset is provided in note 27.

17. Property, plant and equipment

	Leasehold Improvements £'000	Furniture, Fixtures & Fittings £'000	Computer Hardware £'000	Telephony & Communications	Motor Vehicles £'000	Total £'000
Cost:						
As at 1 January 2022	**33**	**152**	**276**	**6**	**-**	**467**
Additions	-	-	87	-	954	1,041
Disposals and write offs	(23)	(128)	(204)	(6)	-	(361)
As at 31 December 2022	**10**	**24**	**159**	**-**	**954**	**1,147**
Additions	13	129	121	-	155	418
Disposals and write offs	-	(1)	(16)	-	-	(17)
As at 31 December 2023	**23**	**152**	**264**	**-**	**1,109**	**1,548**
Accumulated depreciation:						
As at 1 January 2022	**24**	**124**	**214**	**6**	**-**	**368**
Charge for the year	4	16	59	-	16	95
Disposals and write offs	(23)	(128)	(204)	(6)	-	(361)
As at 31 December 2022	**5**	**12**	**69**	**-**	**16**	**102**
Charge for the year	4	32	65	-	217	318
Disposals and write offs	-	(1)	(16)	-	-	(17)
As at 31 December 2023	**9**	**43**	**118**	**-**	**233**	**403**
Carrying amount:						
At 31 December 2022	5	12	90	-	938	1,045
At 31 December 2023	**14**	**109**	**146**	**-**	**876**	**1,145**

In the year ended 31 December 2023, the Group wrote off fully depreciated assets of £17,000. During the year ended 31 December 2022, the Group wrote off fully depreciated assets of £361,000.

18. Right-of-use assets

	Buildings £'000
Cost:	
As at 1 January 2022	**1,138**
Additions	4
Disposals and write offs	-
Lease modifications	11
As at 31 December 2022	**1,153**
Additions	407
Disposals and write offs	-
Lease modifications	567
As at 31 December 2023	**2,127**
Accumulated depreciation:	
At 1 January 2022	**497**
Charge for the year	223
Disposals and write offs	-
At 31 December 2022	**720**
Charge for the year	180
Disposals and write offs	-
At 31 December 2023	**900**
Carrying amount:	
At 31 December 2022	433
At 31 December 2023	**1,227**

During the year ended 31 December 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 of 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, during the year ended 31 December 2023, the Group reversed £10,000 for an unused dilapidations provision for a prior period terminated office lease agreement.

The Group is also engaged in leasing agreements for office premises, motor vehicles and IT equipment. IT equipment leases are low in value and the Motor Vehicles are leased for a term of less than 12 months, resultantly, the Group have opted not to classify these leases as right-of-use assets.

The maturity analysis of lease liabilities is presented in note 34.

Amounts recognised in the income statement:

	2023 £'000	2022 £'000
Depreciation expense on right-of-use assets	180	223
Interest expense on lease liabilities	76	21
Expense relating to short-term leases	3	44
Expense relating to leases of low value assets	9	6
Expenses relating to variable lease payments not included in measurement of lease liability	112	90
Total amounts recognised in the income statement	**380**	**384**

Some of the property leases in which the Group is the lessee contain variable lease payment terms relating to service charges and insurance costs which are included within the contractual terms of the lease agreement. The breakdown of the lease payments for these property leases are as follows:

	2023 £'000	2022 £'000
Buildings:		
Fixed payments	227	141
Variable payments	118	98
Total lease payments	**345**	**239**

19. Intangible assets

	Computer Software £'000
Cost:	
At 1 January 2022	**1,775**
Additions from internal development	193
Additions from separate acquisitions	-
Disposals and write offs	(27)
At 31 December 2022	**1,941**
Additions from internal development	117
Additions from separate acquisitions	-
Disposals and write offs	(538)
At 31 December 2023	**1,520**
Accumulated amortisation:	
At 1 January 2022	**709**
Charge for the year	382
Disposals and write offs	(27)
At 31 December 2022	**1,064**
Charge for the year	376
Disposals and write offs	(538)
At 31 December 2023	**902**

	Computer Software £'000
Carrying amount:	
At 31 December 2022	877
At 31 December 2023	**618**

In the year ended 31 December 2023, the Group capitalised £117,000 (2022: £172,000) of consultancy costs and £nil (2022: £21,000) of employee costs in relation to the development of software platforms aimed at improving the commercial lending processes, customer journey for commercial clients and development of retail customer deposits platform. The amortisation period for these software costs is within a range of 3-5 years following an individual assessment of the asset's expected life. The Group performed an impairment review at 31 December 2023 and concluded an impairment of £nil (2022: £nil).

In the year ended 31 December 2023, the Group wrote off fully depreciated intangible assets of £538,000 (2022: £27,000).

20. Loans and advances to customers

	2023 £'000	2022 £'000
Loan book principal	580,525	439,282
Accrued interest and fees	3,602	2,002
Gross carrying amount	**584,127**	**441,284**
less: impairment allowance	(14,596)	(3,720)
less: effective interest rate adjustment	(1,487)	(1,681)
Total loans and advances to customers	**568,044**	**435,883**

Refer to note 39 for details on the expected maturity analysis of the gross loans receivable balance.

Refer to note 14 and 39 for further details on the impairment losses recognised in the periods.

Ageing analysis of gross loan receivables:

	2023 £'000	2022 £'000
Not in default:		
Not yet past due	566,503	422,845
Past due: 1 - 30 days	467	136
Past due: 31 - 60 days	35	1,074
Past due: 61 - 90 days	-	25
Past due: 90+ days	-	-
	567,005	**424,080**
Defaulted:		
Not yet past due and past due 1 - 90 days	5,020	11,319
Past due 90+ days	12,102	5,885
	17,122	**17,204**
Total gross carrying amount	**584,127**	**441,284**

Analysis of gross loans and advances to customers:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2023	**410,756**	**13,323**	**17,205**	**441,284**
Transfer to Stage 1	42,913	(42,913)	-	-
Transfer to Stage 2	(88,983)	89,328	(345)	-
Transfer to Stage 3	(2,617)	(3,728)	6,345	-
Net lending/(repayment)	183,883	(34,958)	(5,727)	143,198
Write-offs	-	-	(355)	(355)
Total movement in gross loan receivables	**135,196**	**7,729**	**(82)**	**142,843**
As at 31 December 2023	**545,952**	**21,052**	**17,123**	**584,127**
Loss allowance coverage at 31 December 2023	**0.46%**	**0.76%**	**69.58%**	**2.50%**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2022	**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 gross loan receivables	**171,429**	**3,738**	**16,663**	**191,830**
As at 31 December 2022	**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	**1,943**	**84**	**1,693**	**3,720**
Transfer to Stage 1	365	(365)	-	-
Transfer to Stage 2	(464)	606	(142)	-
Transfer to Stage 3	(16)	(174)	190	-
Remeasurement of impairment allowance	(1,668)	266	10,870	9,468
Net lending/(repayment)	2,362	(257)	(342)	1,763
Write-offs	-	-	(355)	(355)
Total movement in loss allowance	**579**	**76**	**10,221**	**10,876**
As at 31 December 2023	**2,522**	**160**	**11,914**	**14,596**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2022	**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	**1,943**	**84**	**1,693**	**3,720**

21. Debt securities

	2023 £'000	2022 £'000
FVOCI debt securities:		
Treasury bills	-	-
UK government gilts	14,839	22,964
Total FVOCI debt securities	**14,839**	**22,964**
Analysis of movements during the year:		
At 1 January	**22,964**	**108,867**
Purchased debt securities	14,554	-
Proceeds from sold or maturing securities	(23,000)	(85,070)
Coupons received	(383)	(746)
Interest income	521	9
Realised gains/(losses)	-	(17)
Unrealised gains/(losses)	183	(96)
Amounts transferred to the income statement	-	17
At 31 December	**14,839**	**22,964**
Maturity profile of debt securities:		
Within 12 months	14,839	22,964
Over 12 months	-	-

The securities are valued at fair value through other comprehensive income ("FVTOCI") using closing bid prices at the reporting date.

In accordance with IFRS 9, all debt securities were assessed for impairment and treated as Stage 1 assets in both reporting periods.

Refer to note 39 for details of the maturity profile of these securities.

22. Derivatives

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
31 December 2023				
Derivative assets:				
Interest rate risk hedging	537	537	(372)	165
Derivative liabilities:				
Interest rate risk hedging	(565)	(565)	222	(343)
31 December 2022				
Derivative assets:				
Interest rate risk hedging	57	57	(28)	29
Derivative liabilities:				
Interest rate risk hedging	(42)	(42)	98	56

All derivative instruments which have been entered into are transacted against SONIA.

Margin call collateral is either paid or received with the swap counterparties on all active swap contracts – this has been included in the above table. As at 31 December 2023, the Group has a variation margin receivable of £150,000 (2022: £70,000) with swap counterparties. Further, the Group holds £2,000,000 (2022: £500,000) of independent collateral with banks for the swap facility, which is not included within the above table. See note 28 for the balance of cash collateral held with banks.

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
31 December 2023					
Derivative assets	45,000	-	30,000	15,000	-
Derivative liabilities	100,000	45,000	55,000	-	-
	145,000	**45,000**	**85,000**	**15,000**	**-**
31 December 2022					
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 10 (2022: 6) derivative contracts with an average fixed rate of 4.65% (2022: 4.21%).

23. Hedge Accounting

	2023 £'000	2022 £'000
Hedged liabilities:		
Current hedge relationships	407	(77)
Swap inception adjustment	17	(7)
Fair value adjustments on hedged liabilities	**424**	**(84)**

As at the year ended 31 December 2023, the Group only hedges liabilities in the form of its customer deposits and subordinated liabilities. The Group does not hedge its loans and advances to customers given these assets are expected to reprice within a short time frame. Refer to note 39 for further details on the Group's interest rate risk management.

The swap inception adjustment relates to hedge accounting adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against new hedged liabilities.

At present, the Group expects its hedging relationships to be highly effective as the Group hedges only fixed term deposit accounts and subordinated liabilities 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 these financial liabilities. In the year ended 31 December 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:

	2023		2022	
	Hedged item £'000	Hedging instrument £'000	Hedged item £'000	Hedging instrument £'000
Customer deposits:				
Carrying amount of hedged item/nominal value of hedging instrument	150,639	145,000	90,505	90,000
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	(424)	(28)	(84)	-
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	(542)	133	(84)	-

In the Consolidated Statement of Financial Position, £537,000 (2022: £57,000) of hedging instruments were recognised within derivative assets; and £565,000 (2022: £42,000) within derivative liabilities.

24. Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	3,965	850
Impairment allowance	(259)	(101)
	3,706	**749**
Other debtors	452	273
Accrued income	-	94
Prepayments	1,177	408
	1,629	**775**
Total trade and other receivables	**5,335**	**1,524**

All trade receivables are due within one year, refer to note 39 for the expected maturity profile.

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:

	2023 £'000	2022 £'000
Not in default:		
Not yet past due	3,513	563
Past due: 1 - 30 days	21	27
Past due: 31 - 60 days	176	2
Past due: 61 - 90 days	12	-
Past due: 90+ days	1	-
	3,723	**592**
Defaulted:		
Not yet past due and past due 1 - 90 days	65	194
Past due 90+ days	177	64
	242	**258**
Total trade receivables	**3,965**	**850**

Analysis of movement of impairment losses on trade receivables:

	2023 £'000	2022 £'000
At 1 January	**101**	**75**
Amounts written off	(8)	(19)
Amounts recovered	-	-
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	166	45
At 31 December	**259**	**101**

25. Current taxation asset

	2023 £'000	2022 £'000
At 1 January	**55**	**59**
Repayments	-	(4)
At 31 December	55	55

Refer to note 27 for further details of the deferred taxation asset.

26. Current taxation liability

	2023 £'000	2022 £'000
At 1 January	**-**	**-**
Charge to profit and loss account	(73)	-
Payments	-	-
At 31 December	**(73)**	**-**

27. Deferred taxation asset

Deferred tax assets and liabilities are recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is determined using tax rates and legislation in force at the balance sheet date and is expected to apply when the deferred tax asset is realised, or the deferred tax liability is settled.

Refer to note 3 of these consolidated financial statements for critical accounting judgements in regards to the recognition of a deferred taxation asset.

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

	2023 £'000	2022 £'000
At 1 January	**8,457**	**-**
Credit/(charge) to profit and loss account	(1,346)	8,457
At 31 December	**7,111**	**8,457**

See below for an analysis of the deferred taxation asset balance:

	2023 £'000	2022 £'000
Losses	7,402	8,730
Short term timing differences	8	8
Fixed assets	(299)	(281)
Deferred taxation asset	**7,111**	**8,457**

The Group has recognised a deferred tax asset in relation to tax losses carried forward of £35m, short term timing difference of £30,000, and a deferred tax liability in relation to tangible fixed assets of £1.1m.

The Group has an unrecognised deferred tax asset value of £0.7m (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%. At the same date, the Banking Surcharge was reduced from 8% to 3%, whilst the allowance increased from £25m to £100m. As at 31 December 2023, the deferred tax asset is based on these revised rates.

28. Loans and advances to banks

	2023 £'000	2022 £'000
Unencumbered:		
Included in cash and cash equivalents: balances with less than three months to maturity at inception	1,315	3,277
Encumbered:		
Cash collateral on derivatives placed with banks	2,160	571
Total loans and advances to banks	**3,475**	**3,848**

29. Notes to the cash flow statement

See below for reconciliation of balances classified as cash and cash equivalents, which are recognised within the consolidated cash flow statement:

	2023 £'000	2022 £'000
Cash and balances at central banks	89,552	107,353
Loans and advances to banks	1,315	3,277
Total cash and cash equivalents	**90,867**	**110,630**

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

	Note	2023 £'000	2022 £'000
Depreciation of property, plant and equipment	17	318	95
Depreciation of right-of-use assets	18	180	223
Amortisation of intangible assets	19	376	382
Share-based payments	10	905	499
Impairment allowances on receivables	14	11,598	2,296
Movement in other provisions	13	(15)	4
Interest income on debt securities	21	(521)	(9)
Finance costs	12	76	21
Unwind of discount	13	5	4
Interest on subordinated liabilities	6	269	-
Amortisation of subordinated liabilities acquisition costs	29	3	-
Interest in suspense		(194)	1,149
Total non-cash items and other adjustments		**13,000**	**4,664**

Net change in operating assets:

	2023 £'000	2022 £'000
Increase in loans and advances to customers	(141,768)	(190,709)
Derivative financial instruments	(480)	(57)
Increase in other assets	(7,328)	(2,423)
Increase in operating assets	**(149,456)**	**(193,189)**

Net change in operating liabilities:

	2023 £'000	2022 £'000
Increase in customer deposits	94,886	182,879
Derivative financial instruments	522	42
Fair value adjustments for portfolio hedged risk	508	(84)
(Decrease)/increase in other liabilities	(1,745)	972
Increase in operating liabilities	**94,171**	**183,809**

Changes in liabilities arising from financing activities:

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	2023			2022		
	Lease liabilities (see note 34) £'000	Subordinated liabilities (see note 37) £'000	Total £'000	Lease liabilities (see note 34) £'000	Subordinated liabilities (see note 37) £'000	Total £'000
At 1 January	**395**	**-**	**395**	**504**	**-**	**504**
Financing cash flows:						
Recognition of subordinated liabilities	-	10,000	10,000	-	-	-
Subordinated liabilities acquisition costs	-	(51)	(51)	-	-	-
Interest payments	(227)	-	(227)	(141)	-	(141)
Non-cash movements:						
Interest expense on subordinated liabilities	-	269	269	-	-	-
Amortisation of subordinated liabilities acquisition costs	-	3	3	-	-	-
Recognition of lease liabilities	365	-	365	-	-	-
Interest expense on lease liabilities	76	-	76	21	-	21
Lease modification	596	-	596	11	-	11
At 31 December	**1,205**	**10,221**	**11,426**	**395**	**-**	**395**

30. Investment in subsidiaries

Subsidiary	Principal activity	Shareholding %	Class of shareholding	Country of incorporation	Registered address
DF Capital Bank Limited	Financial Services	100%	Ordinary	UK	St James' Building, 61-95 Oxford St, Manchester, M1 6EJ
DF Capital Financial Solutions Limited	Financial Services	100%	Ordinary	UK	St James' Building, 61-95 Oxford St, Manchester, M1 6EJ

31. Equity

	2023 No.	2022 No.	2023 £'000	2022 £'000
Authorised:				
Ordinary shares of 1p each	179,369,199	179,369,199	1,793	1,793
Allotted, issued and fully paid: Ordinary shares of 1p each	179,369,199	179,369,199	1,793	1,793

Analysis of the movements in equity:

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.

The below table detailed equity movements within the share capital, share premium and merger relief accounts during the years ended 31 December 2023 and 31 December 2022:

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

32. Own shares

At 31 December 2023 the Group's Employee Benefit Trust held 2,926,617 (2022: 2,963,283) ordinary shares in Distribution Finance Capital Holdings plc to meet obligations under the Company's share and share option plans. The shares are stated at cost and their market value at 31 December 2023 was £658,489 (2022: £992,700)

	2023 £'000	2022 £'000
At 1 January	**(364)**	**(364)**
Acquisition of shares	(67)	-
Settlement of employee share awards	30	-
At 31 December	**(401)**	**(364)**

33. Merger reserve

There were no movements relating to the merger reserve account during years ended 31 December 2023 and 31 December 2022.

34. Lease liabilities

	2023 £'000	2022 £'000
At 1 January	**395**	**504**
Initial recognition	365	-
Interest expense	76	21
Lease payments	(227)	(141)
Lease modification	596	11
At 31 December	**1,205**	**395**

During the year ended 31 December 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 18 for further details.

The fair value of the Group's lease obligations as at 31 December 2023 is estimated to be £1,205,000 (2022: £395,000) using a discount rate between 5% to 10%. The discount rate is equivalent to the Group's incremental borrowing rate which would be incurred for the financing of a similar asset under similar terms as the lease arrangement.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

All lease obligations are denominated in currency units.

The maturity analysis of lease liabilities is as follows:

	2023 £'000	2022 £'000
Analysed as:		
Non-current	148	109
Current	1,057	395
Total lease liabilities	**1,205**	**504**
Maturity analysis of expected lease payments:		
Year 1	253	162
Year 2	252	184
Year 3	252	79
Year 4	253	-
Year 5	252	-
Onwards	360	-
Total expected lease payments	**1,622**	**425**
Less: unearned interest	(417)	(30)
Total lease liabilities	**1,205**	**395**

35. Customer deposits

	2023 £'000	2022 £'000
Retail deposits	574,622	479,736
Total customer deposits	**574,622**	**479,736**
Amounts repayable within one year	512,168	364,674
Amounts repayable after one year	62,454	115,062
	574,622	**479,736**

Refer to note 39 for the maturity profile of the customer deposit balances.

36. Financial liabilities

	2023 £'000	2022 £'000
Lease liabilities	1,205	395
Preference shares	50	50
Total financial liabilities	**1,255**	**445**

Lease liabilities:

See note 34 for further details on the lease liabilities of the Group.

Preference shares:

In April 2019, a sole member decision was granted the allocation of 50,000 non-voting paid up redeemable preference shares of £1.00 each. The preference shares have no attached interest rate, dividends or return on capital. These preference shares are deemed as paid in full with the Director undertaking to pay the consideration of the preference shares by 1 April 2024. The preference shares have no contractual maturity date but will be redeemed in the future out of the proceeds of any issue of new ordinary shares by the Company or when it has available distributable profits. Given these characteristics the preference shares are recognised as a non-current liability with no equity component.

The maturity profile of the financial liabilities are as follows:

	2023 £'000	2022 £'000
Current liabilities	148	145
Non-current liabilities	1,107	300
Total financial liabilities	**1,255**	**445**

Refer to note 39 for changes in financial liabilities balances during the year, including both cash and non-cash changes, as classified within the Group's consolidated cash flow statement under cash flows from financing activities.

37. Subordinated liabilities

	2023 £'000	2022 £'000
Tier 2 notes	10,000	-
Accrued interest	269	-
Deferred acquisition costs	(48)	-
Total subordinated liabilities	**10,221**	**-**

In September 2023 the Group entered into a non-dilutive Tier 2 capital facility from British Business Investments, with an initial £5m drawdown on inception and a further £5m drawdown in October 2023. The contractual term dates for the notes are 5 years from the respective drawdown date. The Group is required to pay bi-annual coupons with a full principal repayment due on the maturity date.

Refer to note 39 for changes in subordinated liabilities balances during the year, including both cash and non-cash changes, as classified within the Group's consolidated cash flow statement under cash flows from financing activities.

Refer to note 39 for the maturity profile of the subordinated liabilities.

38. Trade and other payables

	2023 £'000	2022 £'000
Current liabilities		
Trade payables	528	218
Social security and other taxes	132	360
Other creditors	875	2,993
Pension contributions	71	-
Accruals	2,621	2,446
Total current liabilities	**4,227**	**6,017**
Non-current liabilities		
Social security and other taxes	70	24
Total non-current liabilities	**70**	**24**
Total trade and other payables	**4,297**	**6,041**

39. Financial instruments

The Directors have performed an assessment of the risks affecting the Group through its use of financial instruments and believe the principal risks to be: Treasury (covering capital management, liquidity and interest rate risk); and Credit risk.

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

Capital management

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

The capital structure of the Group consists of financial liabilities (see note 36), subordinated liabilities (see note 37) and equity (comprising issued capital, merger relief, reserves, own shares and retained earnings – see notes 31 to 33).

As a regulated banking Group, the Group is required by the Prudential Regulation Authority (PRA) to hold sufficient regulatory capital. The Group is required by the PRA to conduct an Internal Capital Adequacy Assessment Process ("ICAAP") to assess the appropriate amount of regulatory capital to be held by the Group as a measure of its risk weighted assets ("RWAs"), in accordance with the Group's risk management framework. The ICAAP identifies all key risks to the Bank and how the Group manages these risks. The document outlines the capital resources of the Group, its perceived capital requirements, and capital adequacy over a 3-year period. Within this process the Group conducts a stress testing process to identify key risks, the potential capital requirements and whether the Group has sufficient capital buffers to sustain such events. The Group uses the Standardised Approach (SA) for calculating the capital requirements for credit risk, and Counterparty Credit Risk (SA-CCR) and the Basic Indicator Approach (BIA) for operational risk. The ICAAP is approved by the Group Board at least annually.

The regulatory capital resources of the Group were as follows:

	2023 £'000	2022 £'000
CET1 capital: instruments and reserves		
Called up share capital	1,793	1,793
Share premium accounts	-	39,273
Retained earnings account	24,537	(28,447)
Accumulated other comprehensive income & other reserves	74,084	83,620
CET1 capital before regulatory adjustments	**100,414**	**96,239**
CET1 capital: regulatory adjustments		
Intangible assets	(618)	(877)
Investment in own shares	(2,120)	(2,303)
Prudent valuation adjustment	(15)	(23)
Deferred tax asset	(7,111)	(8,457)
Exposure amount qualifying for a RW of 1250%	(11,281)	-
CET1 capital	**79,269**	**84,579**
Tier 1 capital	**79,269**	**84,579**
Tier 2 capital	**10,269**	**-**
Total regulatory capital	**89,538**	**84,579**

This table is not subject to audit.

The return on assets of the Group (calculated as profit/(loss) after taxation divided by average total assets) was 0.49% (2022: 2.2%).

Information disclosure under Pillar 3 of the Capital Requirements Directive is published on the Group's website at www.dfcapital-investors.com

Principal financial instruments

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

- Cash and balances at central banks, which are considered risk free;
- Loans and advances to banks, which can be a source of credit risk but are primarily liquid assets available to further business objectives or to settle liabilities as necessary;

- Loans and advances to customers, primarily credit risk, interest rate risk, and liquidity risk;
- Debt securities, source of interest rate risk;
- Derivative instruments, credit and liquidity risk;
- Customer deposits, primarily interest rate risk and liquidity risk;
- Subordinated liabilities, primarily interest rate risk and liquidity risk;
- Trade receivables, primarily credit risk and liquidity risk;
- Trade and other payables, primarily credit risk and liquidity risk.

Summary of financial assets and liabilities:

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

31 December 2023	Amortised cost £'000	Fair value through other comprehensive income £'000	Fair value through profit or loss £'000	Total £'000
Financial assets:				
Cash and balances at central banks	89,552	-	-	89,552
Loans and advances to banks	3,475	-	-	3,475
Debt securities	-	14,839	-	14,839
Derivative assets	-	-	537	537
Loans and advances to customers	568,044	-	-	568,044
Trade receivables	3,706	-	-	3,706
Other receivables	452	-	-	452
Total financial assets	**665,229**	**14,839**	**537**	**680,605**

31 December 2023	Amortised cost £'000	Fair value through other comprehensive income £'000	Fair value through profit or loss £'000	Total £'000
Financial liabilities:				
Customer deposits	574,622	-	-	574,622
Derivative liabilities	-	-	565	565
Other financial liabilities	1,205	-	-	1,205
Subordinated liabilities	10,221	-	-	10,221
Trade payables	528	-	-	528
Other payables	1,148	-	-	1,148
Preference shares	50	-	-	50
Total financial liabilities	**587,774**	**-**	**565**	**588,339**

31 December 2022	Amortised cost £'000	Fair value through other comprehensive income £'000	Fair value through profit or loss £'000	Total £'000
Financial assets:				
Cash and balances at central banks	107,353	-	-	107,353
Loans and advances to banks	3,848	-	-	3,848
Debt securities	-	22,964	-	22,964
Derivative assets	-	-	57	57
Loans and advances to customers	435,883	-	-	435,883
Trade receivables	749	-	-	749
Other receivables	273	-	-	273
Total financial assets	**548,106**	**22,964**	**57**	**571,127**
Financial liabilities:				
Customer deposits	479,736	-	-	479,736
Derivative liabilities	-	-	42	42
Other financial liabilities	395	-	-	395
Trade payables	218	-	-	218
Other payables	3,377	-	-	3,377
Preference shares	50	-	-	50
Total financial liabilities	**483,776**	**-**	**42**	**483,818**

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:

31 December 2023	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets not measured at fair value:					
Cash and balances at central banks	89,552	89,552	89,552	-	-
Loans and advances to banks	3,475	3,475	3,475	-	-
Loans and advances to customers	568,044	568,044	-	-	568,044
Trade receivables	3,706	3,706	-	-	3,706
Other receivables	452	452	-	-	452
	665,229	**665,229**	**93,027**	**-**	**572,202**

Financial liabilities not measured at fair value:					
Customer deposits	574,622	574,177	-	-	574,177
Other financial liabilities	1,205	1,205	-	-	1,205
Subordinated liabilities	10,221	10,742	-	10,742	-
Trade payables	528	528	-	-	528
Other payables	1,148	1,148	-	-	1,148
Preference shares	50	50	-	-	50
	587,774	**587,850**	**-**	**10,742**	**577,108**

31 December 2022	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets not measured at fair value:					
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					
Financial liabilities not measured at fair value:					
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**

Where assets and liabilities are not measured at fair value, the Group has calculated their fair values at the reporting date as follows:

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.

Subordinated liabilities

The fair value of the subordinated liabilities is estimated by discounting the expected cashflows using an interest rate for similar liabilities with the same remaining maturity rate and credit profile.

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:

31 December 2023	Carrying amount £'000	Principal amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets measured at fair value:					
Debt securities	14,839	15,000	14,839	-	-
Derivative assets	537	45,000	-	537	-
	15,376	**60,000**	**14,839**	**537**	**-**
Financial liabilities measured at fair value:					
Derivative liabilities	565	100,000	-	565	-
	565	**100,000**	**-**	**565**	**-**

31 December 2022	Carrying amount £'000	Principal amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets measured at fair value:					
Debt securities	22,964	23,000	22,964	-	-
Derivative assets	57	70,000	-	57	-
	23,021	**93,000**	**22,964**	**57**	**-**
Financial liabilities measured at fair value:					
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.

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

Further details regarding these policies are set out below.

Credit risk

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

Credit risk management

The Group has a dedicated credit risk function, which is responsible for individual credit assessment, portfolio management, asset monitoring, collections and recoveries. Furthermore, it manages the Group's credit risk by:

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

Significant increase in credit risk

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

The following is based on the procedures adopted by the Group for the year ended 31 December 2023:

Granting of credit

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

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

Other information which can be considered includes (where necessary and available):

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

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

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

Transactional Credit Committee considers all applications that are outside the credit approval mandate of the Director - Credit due to the financial limit requested. There is an agreed further escalation to the Board Risk Committee for the largest transactions which fall outside of the Transactional Credit Committee.

Identifying significant increases in credit risk

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

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

- A two-notch reduction in the Company's counterparty's risk rating, as notified through the credit rating agency alert system.
- a presumption that an account which is more than 30 days past due has suffered a significant increase in credit risk. IFRS 9 allows this presumption to be rebutted, but the Group believes that more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted the presumption.
- A counterparty defaults on a payment due under a loan agreement.
- Late contractual payments which although cured, re-occur on a regular basis.
- Counterparty confirmation that it has sold Group financed assets but delays in processing payments.
- Evidence of a reduction in a counterparty's working capital facilities which has had an adverse effect on its liquidity.
- Evidence of actual or attempted sales out of trust or of double financing, of assets funded by the Group.

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

Identifying loans and advances in default and credit impaired

The Group's definition of default for this purpose is:

- A counterparty defaults on a payment due under a loan agreement and that payment is more than 90 days overdue;
- A counterparty commits an event of default under the terms and conditions of the loan agreement which leads the lending company to believe that the borrower's ability to meet its credit obligations to the lending company is in doubt; or
- The Group is made aware of a severe deterioration of the credit profile of the customer which is likely to impede the customers' ability to satisfy future payment obligations.

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

Exposure at default (EAD)

Exposure at default ("EAD") is the expected loan balance at the point of default. Where a receivable is not classified as being in default at the reporting date, the Group have included reasonable assumptions to add unaccrued interest and fees up to the receivable becoming 91 days past due, which is considered to be the point of default.

Expected credit losses (ECL)

The ECL on an individual loan is based on the credit losses expected to arise over the life of the loan, being defined as the difference between all the contractual cash flows that are due to the Group and the cash flows that it expects to receive. This difference is then discounted at the original effective interest rate on the loan to reflect the disposal period of such assets underlying the original contract.

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

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

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

whereby: ECL = EAD x PD x LGD

Forward looking information

In its ECL models, the Group applies sensitivity analysis of forward-looking economic inputs. When formulating the economic scenarios, the Group considers both macro-economic factors and other specific drivers which may trigger a certain stress scenario. The impact of movements in these macro-economic factors are assessed on a 12-month basis from the reporting date (31 December).

Maximum exposure to credit risk:

	2023 £'000	2022 £'000
Loans and advances to banks	3,475	3,848
Derivative assets	537	57
Loans and advances to customers	568,044	435,883
Trade and other receivables	4,158	1,022
	576,214	**440,810**

Collateral held as security:

	2023 £'000	2022 £'000
Fully collateralised:		
Loan-to-value* ratio:		
Less than 50%	14,261	2,798
51% to 70%	56,482	36,764
71% to 80%	93,582	63,239
81% to 90%	108,833	69,499
91% to 100%	291,266	264,118
Total collateralised lending	**564,424**	**436,418**
Partially collateralised lending	**-**	**-**
Unsecured lending	**19,703**	**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.

As at 31 December 2023, 96.6% of the loan portfolio was fully collateralised (2022: 99.4%).

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 below table analyses gross carrying amount and impairment allowance by counterparty industry sector:

	31 December 2023		31 December 2022	
	£'000	Portfolio %	£'000	Portfolio %
Gross carrying amount:				
Lodges and holiday homes	148,441	25.4%	118,156	26.8%
Motorhomes and caravans	131,478	22.5%	83,420	18.9%
Transport	130,982	22.4%	113,595	25.7%
Marine	55,981	9.6%	47,713	10.8%
Industrial equipment	35,926	6.2%	30,159	6.8%
Motor vehicles	27,458	4.7%	20,767	4.7%
Agricultural equipment	26,995	4.6%	24,555	5.6%
Wholesale	18,500	3.2%	-	0.0%
Automotive	8,366	1.4%	2,919	0.7%
Total gross carrying amount	**584,127**	**100%**	**441,284**	**100%**

	£'000	ECL coverage %	£'000	ECL coverage %
Impairment allowance:				
Lodges and holiday homes	(11,428)	7.7%	(1,704)	1.4%
Motorhomes and caravans	(454)	0.3%	(227)	0.3%
Transport	(563)	0.4%	(445)	0.4%
Marine	(773)	1.4%	(304)	0.6%
Industrial equipment	(87)	0.2%	(74)	0.2%
Motor vehicles	(312)	1.1%	(277)	1.3%
Agricultural equipment	(688)	2.5%	(662)	2.7%
Wholesale	(251)	1.4%	-	0.0%
Automotive	(40)	0.5%	(27)	0.9%
Total impairment allowance	**(14,596)**	**2.5%**	**(3,720)**	**0.8%**

Credit quality

The Risk Rating is an internal rating system of counterparty credit risk whereby the Group will allocate a rating from 1 to 9, 1 being the highest level of credit quality and 9 being the lowest level of credit quality. The Group uses Experian Delphi scores to set Risk Ratings which in turn determine the probability of default for each Counterparty. In the majority of cases, the Experian Delphi score will be used without management override adjustments. However, where the Delphi score differs from the Group's assessment of credit risk and / or where a Delphi score cannot be derived such as in the case of sole traders or unincorporated partnerships, either a Delphi score uplift or a Delphi score equivalent is utilised to calculate DFC's internal risk rating. The Risk Rating for each counterparty is reviewed on an ongoing basis and recorded as at the reporting date.

An analysis of the Group's credit risk exposure for loan and advances to customers, internal rating and "stage" is provided in the following tables. A description of the meanings of Stages 1, 2 and 3 was given in the accounting policies set out above. See below table of gross loan receivables by Risk Rating and IFRS 9 stage allocation:

	Stage 1		Stage 2		Stage 3		Total	
31 December 2023	£'000	Portfolio %	£'000	Portfolio %	£'000	Portfolio %	£'000	Portfolio %
Gross carrying amount:								
Above average (Risk rating 1-2)	432,493	74%	-	0%	763	0%	433,256	74%
Average (Risk rating 3-5)	93,568	16%	17,729	3%	1,850	0%	113,147	19%
Below average (Risk rating 6+)	19,891	3%	3,323	1%	14,510	3%	37,724	7%
Total gross carrying amount	**545,952**	**93%**	**21,052**	**4%**	**17,123**	**3%**	**584,127**	**100%**

	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %
Impairment allowance:								
Above average (Risk rating 1-2)	(1,483)	0.3%	-	0.0%	(526)	68.9%	(2,009)	0.5%
Average (Risk rating 3-5)	(860)	0.9%	(150)	0.8%	(315)	17.0%	(1,325)	1.2%
Below average (Risk rating 6+)	(179)	0.9%	(10)	0.3%	(11,073)	76.3%	(11,262)	29.9%
Total impairment allowance	**(2,522)**	**0.5%**	**(160)**	**0.8%**	**(11,914)**	**69.6%**	**(14,596)**	**2.5%**

	Stage 1		Stage 2		Stage 3		Total	
31 December 2022	£'000	Portfolio %	£'000	Portfolio %	£'000	Portfolio %	£'000	Portfolio %
Gross carrying amount:								
Above average (Risk rating 1-2)	267,000	61%	6,629	2%	-	0%	273,629	62%
Average (Risk rating 3-5)	110,818	25%	5,433	1%	14,757	3%	131,008	30%
Below average (Risk 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%**

	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %
Impairment allowance:								
Above average (Risk rating 1-2)	(475)	0.2%	(17)	0.3%	-	0.0%	(492)	0.2%
Average (Risk rating 3-5)	(981)	0.9%	(46)	0.8%	(1,292)	8.8%	(2,319)	1.8%
Below average (Risk 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 20 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:

	2023 £'000	2022 £'000
Status at balance sheet date:		
Not past due, nor defaulted	3,513	563
Past due but not in default	210	29
Defaulted	242	258
Total gross carrying amount	**3,965**	**850**
Impairment allowance	(259)	(101)
Carrying amount	**3,706**	**749**

See note 24 for analysis of the movements in gross trade receivables and impairment allowances in terms of IFRS 9 staging.

Financial guarantee schemes

In the year ended 31 December 2023, the Group entered into financial guarantee schemes which allow the Group to reduce its regulatory capital requirements.

In January 2023 the Group entered into the ENABLE guarantee scheme with the British Business Bank for an initial facility of £175m which provided the Group with incremental capacity to scale its loan book without the need for additional Tier 1 equity capital by up to £75m. In August 2023, the facility size was increased to £250m which increased this incremental capacity to £105m. The Group has considered the impact of the ENABLE guarantee scheme on its expected credit losses which has been deemed to have an immaterial net impact on the Group's impairment allowances given the recourse criteria thresholds on the scheme. The guarantees is a mitigant against significant systemic, portfolio-level loss events but is very unlikely to be drawn upon in the natural course of business.

In December 2023, the Group entered into a trade credit insurance policy covering a portion of the Group's loan book exposure in the case of default to a maximum limit of £10m. Given the scheme size at the year-end it is deemed to have an immaterial net impact on the Group's impairment allowances.

Amounts written off

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £208,000 at 31 December 2023 (31 December 2022: £nil).

Liquidity risk

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

Liquidity risk management

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

The Bank has a comprehensive suite of liquidity management processes in place, which allow the Bank to monitor liquidity risk on a daily basis. Daily liquidity reporting is supplemented by Early Warning Indicators and a Liquidity Contingency Plan.

Liquidity stress testing

Stress Testing is a key risk management tool for the Bank and is used to inform the setting of risk appetite limits and required buffers.

A range of liquidity stress scenarios has been conducted (as detailed in the Internal Liquidity Adequacy Assessment Process "ILAAP" document), which demonstrates that the Group's liquidity profile is sufficient to withstand a severe stress.

Maturity analysis for financial assets:

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

31 December 2023	Carrying amount £'000	Gross nominal inflow £'000	Less than 1 month £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Cash and balances at central banks	89,552	89,552	89,552	-	-	-	-
Loans and advances to banks	3,475	3,475	1,325	(49)	(173)	2,372	
Debt securities	14,839	15,075	-	-	15,075	-	-
Derivative assets	537	537	-	-	7	530	-
Loans and advances to customers	568,044	573,485	77,060	174,366	280,617	41,442	-
Trade receivables	3,706	3,965	3,965	-	-	-	-
Other receivables	452	452	145	1	51	4	251
	680,605	**686,541**	**172,047**	**174,318**	**295,577**	**44,348**	**251**

31 December 2022	Carrying amount £'000	Gross nominal inflow £'000	Less than 1 month £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Cash and balances at central banks	107,353	107,353	107,353	-	-	-	-
Loans and advances to banks	3,848	3,848	3,277	75	(58)	554	-
Debt securities	22,964	23,233	13,008	113	10,112	-	-
Derivative assets	57	20	-	-	39	(19)	-
Loans and advances to customers	435,883	439,282	58,593	138,833	219,829	22,027	-
Trade receivables	749	850	850	-	-	-	-
Other receivables	273	273	1	-	8	154	110
	571,127	**574,859**	**183,082**	**139,021**	**229,930**	**22,716**	**110**

Maturity analysis for financial liabilities:

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

31 December 2023	Carrying amount £'000	Gross nominal outflow £'000	Less than 1 month £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Customer deposits	574,622	588,866	82,022	83,486	355,709	67,649	-
Derivative liabilities	565	565	-	220	345	-	-
Other financial liabilities	1,205	1,622	-	64	189	1,008	361
Subordinated liabilities	10,221	16,350	-	318	953	15,079	-
Trade payables	528	528	528	-	-	-	-
Other payables	1,148	1,337	1,045	27	7	258	-
Preference shares	50	50	-	-	50	-	-
	588,339	**609,318**	**83,595**	**84,115**	**357,253**	**83,994**	**361**
Loan commitments	-	**7,833**	**7,833**	-	-	-	-

31 December 2022	Carrying amount £'000	Gross nominal outflow £'000	Less than 1 month £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Customer deposits	479,736	491,911	47,861	43,564	278,483	122,003	-
Derivative liabilities	42	68	51	-	-	17	-
Other financial liabilities	395	425	-	23	139	263	-
Trade payables	218	218	218	-	-	-	-
Other payables	3,377	3,249	3,212	-	(33)	70	-
Preference shares	50	50	-	-	-	50	-
	483,818	**495,921**	**51,342**	**43,587**	**278,589**	**122,403**	-
Loan commitments	-	**10,663**	**10,663**	-	-	-	-

Market risk

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

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

Interest rate risk management

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

The Group's borrowings are either fixed rate, or administered, (being products where the rate is set at the DFC's discretion). The Group has no exposure to LIBOR. These borrowings fund loans and advances to customers at fixed rate.

The limited average duration of the loan and deposit book provide a natural mitigant against interest rate risk. The Bank aims to naturally hedge interest rate risk through raising funding of a similar profile of the loans being funded. Where this is not possible, interest rate swaps are used to manage repricing mismatches.

The Bank evaluates changes in the economic value of equity calculated under the following six supervisory shock scenarios referred to in Rule 9.7 of the ICAA Part of the PRA Rulebook as issued by the Prudential Regulation Authority (PRA).

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

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

	2023 £'000	2022 £'000
Change in interest rate (basis points):		
Sensitivity of EVE +200bps	(268)	658
Sensitivity of EVE -200bps	273	(681)

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

	2023 £'000	2022 £'000
Change in interest rate (basis points):		
Sensitivity of profit +200bps	911	1,868
Sensitivity of profit -200bps	(1,755)	(2,522)

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

40. Earnings per share

	2023 £'000	2022 £'000
Earnings attributable to ordinary shareholders:		
Profit after tax attributable to the shareholders	3,155	9,761
Weighted average number of shares, thousands:		
Basic	179,369	179,369
Dilutive impact of share-based payment schemes	8,125	-
Diluted	187,494	179,369
Earnings per share, pence per share:		
Basic	1.8	5.4
Diluted	1.7	5.4

41. Controlling party

As at 31 December 2023 there was no controlling party of the ultimate parent company of the Group, Distribution Finance Capital Holdings plc.

42. Country by country reporting (CBCR)

CBCR was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry. The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK	England	Distribution Finance Capital Holdings plc	Holding company
		DF Capital Bank Limited	Commercial lending and specialist personal savings
		DF Capital Financial Solutions Limited	Commercial lending

Other disclosures required by the CBCR directive are provided below:

UK totals	2023	2022
Average number of employees	126	103
Turnover, £'000	60,350	26,842
Profit before taxation, £'000	4,573	1,304
Taxation charge/(credit), £'000	1,418	(8,457)

The tables below reconcile tax charged and tax paid during the year.

UK totals	2023 £'000s	2022 £'000s
Taxation charge/(credit)	1,418	(8,457)
Effects of:		
Deferred taxation asset recognition	-	9,043
Deferred taxation asset utilisation	(1,345)	(586)
Other timing differences	(73)	-
Taxation paid	**-**	**-**

All activities relating to the Group are conducted within the United Kingdom and the Group is not subject to non-domestic taxation.

43. Related party disclosures

In the year ended 31 December 2023, Directors were awarded share-based payments, refer to note 10 for further details.

Directors' emoluments are disclosed in note 9 of these consolidated financial statements.

In the year ended 31 December 2023, there were no other related party transactions.

44. Transactions with key management personnel

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year, there were no related party transactions between the key management personnel and the Group other than as described below.

The Directors and Senior Leadership team are considered to be key management personnel. Directors' remuneration is disclosed in note 9 and in the Directors' Remuneration Report on page 80. The Senior Leadership team are all employees of the Group. The aggregate remuneration of the key management personnel (including Directors) is shown in the table below:

	2023 £'000	2022 £'000
Short-term employment benefits	3,808	3,014
Share-based payments	54	-
Total key management personnel remuneration	**3,862**	**3,014**

Key management personnel held deposits with the Group of £117,000 (2022: nil).

45. Subsequent events

There have been no subsequent events between 31 December 2023 and the date of this report which would have a material impact on the financial position of the Group.

The Company Statement of Financial Position

	Note	2023 £'000	2022 £'000
Assets			
Loans and advances to banks	5	81	146
Trade and other receivables	7	157	155
Amounts receivable from Group Undertakings		86	-
Investment in subsidiaries	8	135,604	134,213
Total assets		**135,928**	**134,514**
Liabilities			
Trade and other payables	10	836	700
Financial liabilities	11	50	50
Amounts payable to Group Undertakings	9	6,742	5,522
Total liabilities		**7,628**	**6,272**
Equity			
Issued share capital	12	1,793	1,793
Share premium	12	-	39,273
Merger relief	12	94,911	94,911
Retained earnings/(loss)		31,997	(7,371)
Own shares	13	(401)	(364)
Total equity		**128,300**	**128,242**
Total equity and liabilities		**135,928**	**134,514**

The notes on pages 183-188 are an integral part of these financial statements.

Distribution Finance Capital Holdings plc recorded loss after taxation for the year ended 31 December 2023 of £779,000 (2022: loss of £1,414,000). These financial results are derived entirely from continuing operations.

These financial statements were approved by the Board of Directors and authorised for issue on 8 April 2024. They were signed on its behalf by:

Carl D'Ammassa
Director

8 April 2024

Registered number: 11911574

The Company Cash Flow Statement

	Note	2023 £'000	2022 £'000
Cash flows from operating activities:			
Loss before taxation	4	(779)	(1,414)
Adjustments for non-cash items and other adjustments included in the income statement	6	(1,970)	(1,029)
Increase in operating assets		(2)	(34)
Increase in operating liabilities		137	155
Taxation paid		-	-
Net cash used in operating activities		**(2,614)**	**(2,322)**
Cash flows from investing activities:			
Purchase of own shares	13	(67)	-
Net cash used in investing activities		**(67)**	**-**
Cash flows from financing activities:			
Proceeds from intercompany loan		2,616	1,938
Net cash from financing activities		**2,616**	**1,938**
Net decrease in cash and cash equivalents		**(65)**	**(384)**
Cash and cash equivalents at start of the year	5	146	530
Cash and cash equivalents at end of the year	**5**	**81**	**146**

The Company Statement of Changes in Equity

	Issued share capital £'000	Share premium [3] £'000	Merger relief £'000	Own shares [2] £'000	Retained earnings/ (loss) £'000	Total £'000
Balance at 1 January 2022	**1,793**	**39,273**	**94,911**	**(364)**	**(6,456)**	**129,157**
(Loss) after taxation	-	-	-	-	(1,414)	(1,414)
Share based payments	-	-	-	-	499	499
Balance at 31 December 2022	**1,793**	**39,273**	**94,911**	**(364)**	**(7,371)**	**128,242**
(Loss) after taxation	-	-	-	-	(779)	(779)
Share based payments [1]	-	-	-	-	905	905
Employee Benefit Trust [2]	-	-	-	(37)	(31)	(68)
Share premium account cancellation [3]	-	(39,273)	-	-	39,273	-
Balance at 31 December 2023	**1,793**	**-**	**94,911**	**(401)**	**31,997**	**128,300**

1. Refer to note 10 of the consolidated financial statements for further details of movements in the year.
2. The Company has adopted look-through accounting (see note 1.3 to the Group's consolidated financial statements) and recognised the Employee Benefit Trusts within the Company. Refer to note 13 for further details on movements in the year.
3. In the year ended 31 December 2023, the Company cancelled its share premium account – refer to note 31 of the consolidated financial statements for details.

Notes to the Company Financial Statements

1. Basis of preparation

1.1 Accounting basis

These standalone financial statements for Distribution Finance Capital Holdings plc (the "Company") have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the United Kingdom (UK) and interpretations issued by the IFRS Interpretations Committee (IFRS IC).

1.2 Going concern

As detailed in note 1 to the consolidated financial statements, the Directors have performed an assessment of the appropriateness of the going concern basis. The Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

1.3 Income statement

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement.

2. Summary of significant accounting policies

These financial statements have been prepared using the significant accounting policies as set out in note 2 to the consolidated financial statements. Any further accounting policies provided below are solely applicable to the Company financial statements.

2.1 Investment in subsidiaries

In accordance with IAS 27 Separate Financial Statements the Company has elected to account for an investment in subsidiary at cost. The Company performs an impairment assessment on the investment in subsidiary at each reporting date to assess whether the cost basis reflects an accurate value of the investment at the reporting date.

3. Critical accounting judgements and key sources of estimation uncertainty

In the financial statements for the year ended 31 December 2023, the Company has not made any critical accounting judgements and key sources of estimation which are considered to be material in value or significance to the performance of the Company.

4. Net loss attributable to equity shareholders of the Company

	2023 £'000	2022 £'000
Net loss attributable to equity shareholder of the Company	(779)	(1,414)

5. Loans and advances to banks

	2023 £'000	2022 £'000
Included in cash and cash equivalents: balances with less than three months to maturity at inception	81	146
Total loans and advances to banks	**81**	**146**

6. Notes to the cash flow statement

See below for reconciliation of balances classified as cash and cash equivalents, which are recognised within the cash flow statement:

	2023 £'000	2022 £'000
Loans and advances to banks	81	146
Total cash and cash equivalents	**81**	**146**

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

	2023 £'000	2022 £'000
Management fee recharge	(2,287)	(1,205)
Share-based payments	317	176
Total non-cash items and other adjustments	**(1,970)**	**(1,029)**

Changes in liabilities arising from financing activities:

The Company had no changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes, for the years ended 31 December 2023 and 31 December 2022.

7. Trade and other receivables

	2023 £'000	2022 £'000
Other debtors	50	50
Indirect taxes	11	4
Prepayments	96	101
Total trade and other receivables	**157**	**155**

8. Investment in subsidiaries

	£'000
Balance at 1 January 2022	**134,213**
No transactions in the year	-
Balance at 31 December 2022	**134,213**
Capital contribution – parent equity-settled share-based payments	1,391
Balance at 31 December 2023	**135,604**

In years prior to the year ended 31 December 2023, the Company treated share-based payments awarded to employees of subsidiaries as cash settled, for which there was a debit against the intercompany loan. In the year ended 31 December 2023, this arrangement was reviewed, and concluded that there is no obligation for the subsidiaries to reimburse the Company for the settlement of share awards. In the year ended 31 December 2023, the total figure of £1,391,000 includes a figure in respect of prior years of £803,000.

In the years ended 31 December 2022, there was no changes to investment in subsidiaries.

For the year ended 31 December 2023, the Company conducted an impairment assessment of the investment in subsidiaries and concluded that there is no impairment required (2022:£nil).

9. Amounts payable to Group undertakings

	2023 £'000	2022 £'000
Amounts payable to DF Capital Bank Limited	6,742	5,522
Total amounts payable to Group undertakings	**6,742**	**5,522**

All amounts drawn and outstanding under the intercompany loan facility, including all accrued interest and costs, are payable on demand by the lender DF Capital Bank Limited. Interest on the loan shall accrue daily and is charged at 4% over the Sterling Overnight Indexed Average (SONIA) rate at the end of each calendar month. This contractual agreement has an expiry date of 31 December 2024.

10. Trade and other payables

	2023 £'000	2022 £'000
Trade payables	187	-
Accruals	593	654
Social security taxes	56	46
Total trade and other payables	**836**	**700**

11. Financial liabilities

	2023 £'000	2022 £'000
Preference shares	50	50
Total financial liabilities	**50**	**50**

Reconciliation of movements in financial liabilities:

	Preference Shares £'000
Balance at 1 January 2022	**50**
No transactions in the year	-
Balance at 31 December 2022	**50**
No transactions in the year	-
Balance at 31 December 2023	**50**

12. Share capital

	2023 No.	2022 No.	2023 £'000	2022 £'000
Authorised:				
Ordinary shares of 1p each	179,369,199	179,369,199	1,793	1,793
Allotted, issued and fully paid: Ordinary shares of 1p each	179,369,199	179,369,199	1,793	1,793

	Date	No. of shares #	Issue Price £	Share Capital £'000	Share Premium £'000	Merger Relief £'000	Total £'000
At 1 January 2022		**179,369,199**		**1,793**	**39,273**	**94,911**	**135,977**
No transactions in the year		-	-	-	-	-	-
At 31 December 2022		**179,369,199**		**1,793**	**39,273**	**94,911**	**135,977**
Share premium account cancellation	29-Jun-23	-	-	-	(39,273)	-	(39,273)
At 31 December 2023		**179,369,199**		**1,793**	**-**	**94,911**	**96,704**

13. Own shares

	£'000
Balance at 1 January 2022	**(364)**
No transactions in the year	-
Balance at 31 December 2022	**(364)**
Acquisition of shares	(67)
Settlement of employee share awards	30
Balance at 31 December 2023	**(401)**

14. Financial instruments

The Group monitors and manages risk management at a group-level and, therefore, the Risk Management Framework stipulated in note 39 of the consolidated financial statements encompasses the Company risk management environment.

The Company and Directors believe the principal risks of the Company to be credit risk, liquidity risk and capital risk. The Directors have evaluated the following risks to either not be relevant to the Company or of immaterial significance: market risk, interest rate risk and exchange rate risk.

The regulatory capital requirements in respect of capital risk are assessed at both a consolidated group level and for DF Capital Bank Limited at an entity level.

See note 39 of the consolidated financial statements for further details on how the Company defines and manages credit risk and liquidity risk.

31 December 2023	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets not measured at fair value					
Loans and advances to banks	81	81	81	-	-
Other receivables	61	61	-	-	61
Amounts receivable from Group Undertakings	86	86	-	-	86
	228	**228**	**81**	**-**	**147**

31 December 2023	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial liabilities not measured at fair value					
Trade payables	187	187	-	-	187
Other payables	56	56	-	-	56
Preference shares	50	50	-	-	50
Amounts payable to Group Undertakings	6,742	6,742	-	-	6,742
	7,035	**7,035**	**-**	**-**	**7,035**

Financial assets and financial liabilities included in the statement of financial position that are not measured at fair value:

31 December 2022	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets not measured at fair value:					
Loans and advances to banks	146	146	146	-	-
Other receivables	54	54	-	-	54
	200	**200**	**146**	**-**	**54**

31 December 2022					
Financial liabilities not measured at fair value:					
Other payables	46	46	-	-	46
Preference shares	50	50	-	-	50
Amounts payable to Group Undertakings	5,522	5,522	-	-	5,522
	5,618	**5,618**	**-**	**-**	**5,618**

Maximum exposure to credit risk:

	2023 £'000	2022 £'000
Loans and advances to banks	81	146
Trade and other receivables	61	54
Amounts receivable from Group Undertakings	86	-
	228	**200**

Maturity analysis for financial assets

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

31 December 2023	Carrying amount £'000	Gross nominal inflow £'000	Less than 1 months £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Loans and advances to banks	81	81	81	-	-	-	-
Other receivables	61	61	11	-	50	-	-
Amounts receivable from Group Undertakings	86	86	-	-	86	-	-
	228	**228**	**92**	**-**	**136**	**-**	**-**

31 December 2022	Carrying amount £'000	Gross nominal inflow £'000	Less than 1 months £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Loans and advances to banks	146	146	146	-	-	-	-
Other receivables	54	54	4	-	-	50	-
	200	**200**	**150**	**-**	**-**	**50**	**-**

Maturity analysis for financial liabilities

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

31 December 2023	Carrying amount £'000	Gross nominal outflow £'000	Less than 1 months £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Trade payables	187	187	187	-	-	-	-
Other payables	56	111	33	-	-	78	-
Preference shares	50	50	-	-	50	-	-
Amounts payable to Group Undertakings	6,742	6,742	-	-	6,742	-	-
	7,035	**7,090**	**220**	**-**	**6,792**	**78**	**-**

31 December 2022	Carrying amount £'000	Gross nominal outflow £'000	Less than 1 months £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
Other payables	46	80	1	-	51	28	-
Preference shares	50	50	-	-	-	50	-
Amounts payable to Group Undertakings	5,522	5,522	-	-	5,522	-	-
	5,618	**5,652**	**1**	**-**	**5,573**	**78**	**-**

15. Subsequent events

There have been no subsequent events between 31 December 2023 and the date of this report which would have a material impact on the financial position of the Company.

Appendix - Alternative Performance Measures

Certain financial measures disclosed in this Annual 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 below) 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.

Measure	Definition
Gross revenues	Sum of interest and similar income, fee income less fee expenses, net gains/(losses) on disposal of financial assets at fair value through other comprehensive income, net losses from derivatives measured at fair value through profit or loss and other operating income
Regulatory capital	Regulatory capital is the Common Equity Tier 1 capital together with Tier 2 capital
Gross yield	The effective interest rate we charge our customers including fees
Net interest margin	Total operating income adding back fee expense as a % of gross receivables at the year end
Cost of risk	Impairments and provisions in the year as a % of average gross receivables
Impairment loss coverage on loans to customers	Impairment allowance as a % of gross receivables at the year end
Cost income ratio	Operating cost as a % of total operating income
Adjusted earnings per share	This reduces profit after tax in the earnings per share calculation for the initial recognition of a deferred tax asset of £9,043,000 that occurred in 2022
Tangible net asset value per share	Net assets less intangible assets divided by the weighted average number of shares in issue
Number of dealers	Number of borrower relationships
Number of manufacturer partners	Number of vendors and manufacturers with whom we have programs that support our lending
Total credit available to dealers	Amount of credit available to our customers to draw (uncommitted) including existing drawings

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