dfcapital.bank

Distribution Finance Capital Holdings plc

Annual Report and Financial Statements 2022

DF Capital

Company information

Distribution Finance Capital Holdings plc

Directors	**Mark Stephens** Independent Board Chair (appointed 11 April 2019) **Sheryl Lawrence** Senior Independent Non-Executive Director (appointed 16 May 2022) **Nicole Coll** Independent Non-Executive Director (appointed 16 May 2022) **Thomas Grathwohl** Independent Non-Executive Director (appointed 11 April 2019) **Haakon Stenrød** Non-Executive Director (appointed 13 May 2020) **Carl D'Ammassa** Chief Executive Officer (appointed 9 March 2020) **Gavin Morris** Chief Financial Officer (appointed 28 March 2019)
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
Brokers	Investec Bank Plc, 30 Gresham Street, London EC2V 7QP (who are also our Nominated Advisers) Liberum Capital Limited, Level 12, 25 Ropemaker Street, London EC2Y 9LY (appointed on 19 January 2023)
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 March 2019. 'DF Capital Bank Ltd' (formerly 'Distribution Finance Capital Ltd') is a wholly owned subsidiary of Distribution Finance Capital Holdings plc. 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'.

Contents

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.

Strategic Report

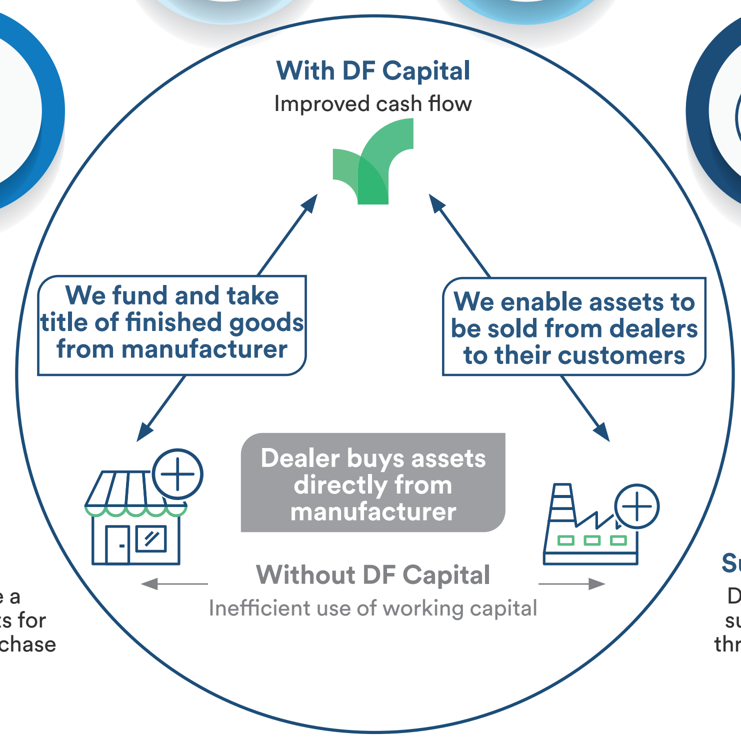
How we help: benefits of distribution finance

Protects cash flow
Stock can be financed from order to sale by a dedicated credit facility

Frees up working capital
Working capital is freed up to allow dealers to invest into other areas of their business

Increase profit
Dealers can sell products at full price without needing to discount to manage cash flow

Speed and flexibility
Allows dealers to acquire the right product when they need it, with same day funding capability



Grow sales
Allows dealers to have a greater range of products for customers to see and purchase

Support and guidance
Dedicated industry teams support and guide dealers through the funding process

Supported by award winning savings

- Notice accounts
- Fast account opening
- Online banking
- £480m deposits
- Exceptional Service 2023 feefo
- Fixed term
- Great rates
- Telephone support
- Over 12,600 deposit accounts
- Gold Trusted Service Award 2023 feefo

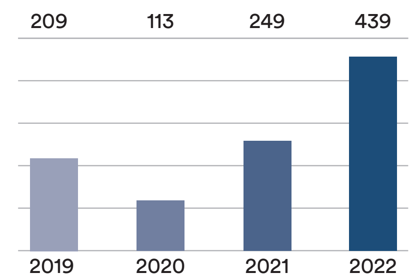
Financial highlights

Maiden pre-tax profit of

£1.3m

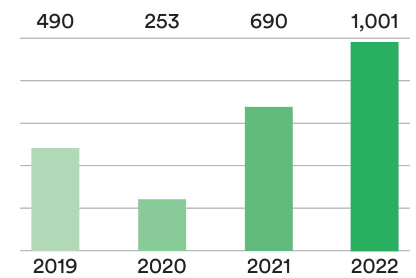
(2021: loss £3.7m)

Loan book (£m)



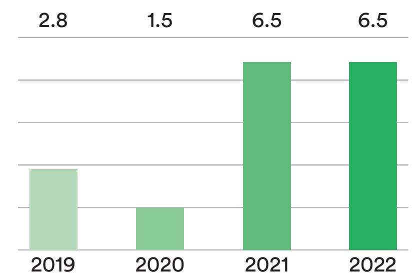
How much we have lent our customers

New loans advanced to customers (£m)



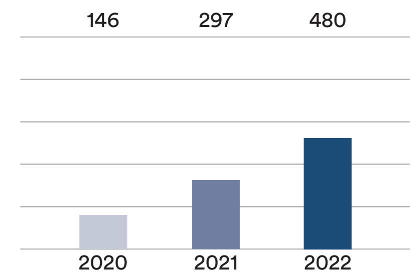
Volume of business our lending has supported during the year

Net interest margin (%)



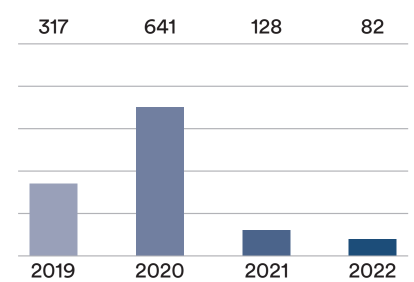
The amount of income earned from lending less the cost of funding (wholesale and retail deposits)

Retail deposits (£m)



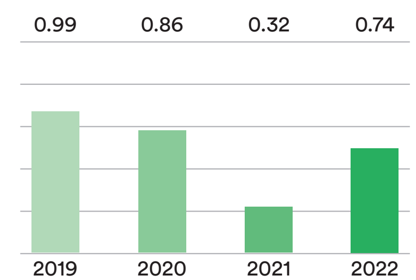
Aggregate total of retail deposits held by the bank

Cost to income ratio (%)



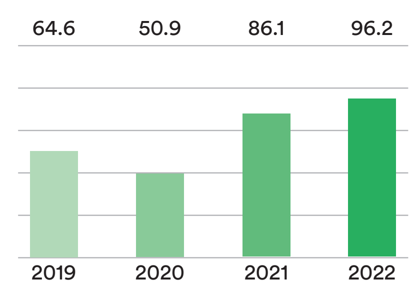
Operating cost as a % of net income generated

Cost of risk (%)



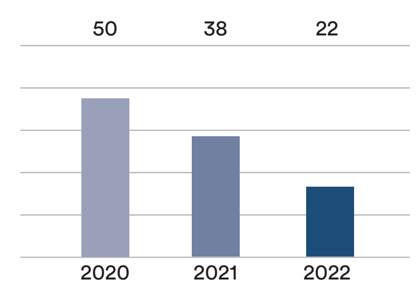
Impairments and provisions in the period as a % of average gross receivables

Net assets (£m)



The equity held in the group

CET1 ratio (%)



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

Chair's Statement

Mark Stephens
Independent
Non-Executive Chair

Dear Shareholder

The momentum the firm demonstrated in 2021 continued at pace through 2022. The global pandemic and war in Ukraine are continuing to have an impact on the economy and supply chains worldwide. DF Capital has navigated these uncertainties well and against this backdrop it is pleasing to report the Group's maiden full year profit.

Given the time taken to obtain our bank licence, one of our key priorities has been to reach profitability. The Group was bank-ready for some time, so following our authorisation as a bank we were quickly able to enjoy the full benefits, with access to retail deposits to support our lending operation. That being said, to have reached full year profitability within two years of becoming a bank truly demonstrates the strength of our proposition, and is a credit to the entire DF Capital team. Hitting this milestone is one that many new banks aspire to achieve.

An outstanding place to work

In the Board's opinion, modern sustainable businesses are built on the solid foundation of a positive and inclusive culture across the firm, where all employees work in a collaborative environment, where risk management is taken seriously and where customers' needs are front of everyone's minds. The Board is delighted that DF Capital has been recognised as an "Outstanding place to work" by Best Companies, following a survey of our employees. Being accredited with two stars builds on last year's result and it will be no surprise that the firm has ranked highly in sector and regional league tables also.

Board composition

As a Board, ensuring that we have the right skills and experience to support the Group's ambitions is front of our minds. I am delighted to welcome Sheryl Lawrence and Nicole Coll to the Board, with Sheryl becoming Senior Independent Director and Chair of the Risk Committee, and Nicole becoming our Chair of the Audit Committee.

I would like to thank Carole Machell, who stood down from the Board at last year's Annual General Meeting, for her support not only during my transition to the position of Chair, but also during her four year tenure as a member of the Board. I am grateful to Carole for picking up additional responsibilities whilst we planned Sheryl and Nicole's appointments.

I am confident we have both the breadth and depth of experience across the Group to support the firm's ambitions to further scale our franchise, always underpinned by an appropriate and proportionate corporate governance framework.

A well-capitalised bank

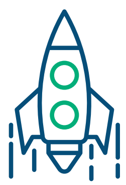
DF Capital is a well-capitalised bank and now with the additional support from the British Business Bank's ENABLE Guarantee scheme we have the capacity to grow the Group's lending further. We remain committed to supporting manufacturers and dealers with our products and services. During 2023 we intend to build on the foundation we have laid by pushing into adjacent markets and exploring other opportunities to use our banking franchise to lend in markets where we feel we can make strong risk adjusted returns.

2022 has been another strong year for the firm and I am delighted with the continued progress the Group is making to deliver sustainable returns for its shareholders over the medium term.

Mark Stephens
Independent Non-Executive Chair

Chief Executive Officer's Report

Carl D'Ammassa
Chief Executive Officer



Delivering growth

Putting our customers' needs first

Acting sustainably

Dear Shareholder

I am delighted to announce our first full year of profitability. Since receiving our bank licence in September 2020, we have strived to achieve run-rate profitability in a sustainable, responsible way as soon as we possibly could. We have diligently stuck to our business plan and had a cautious eye on good credit risk management throughout. We can confidently now move forward in the knowledge that our capital and retained profits will support increased lending, rather than absorbing trading losses.

2022: significant progress amid continued macroeconomic uncertainty

It's clear that during our relatively short life as a bank, we have craved for what we would describe as more normal times, calibrated against the world as it was pre-pandemic. Obtaining a banking licence during a global pandemic was not an easy task, but the economic uncertainty that has unfolded since, whether that's the tail effects of the pandemic, inflation, the war in Ukraine or disruption to global supply chains and logistics, has really put the team and our business model through its paces. I am delighted with the Group's response, having performed exceptionally well, demonstrating our agility and speed of action in order to best navigate what can only be described as an uncertain world.

We have continued to focus on our strategic pillars:

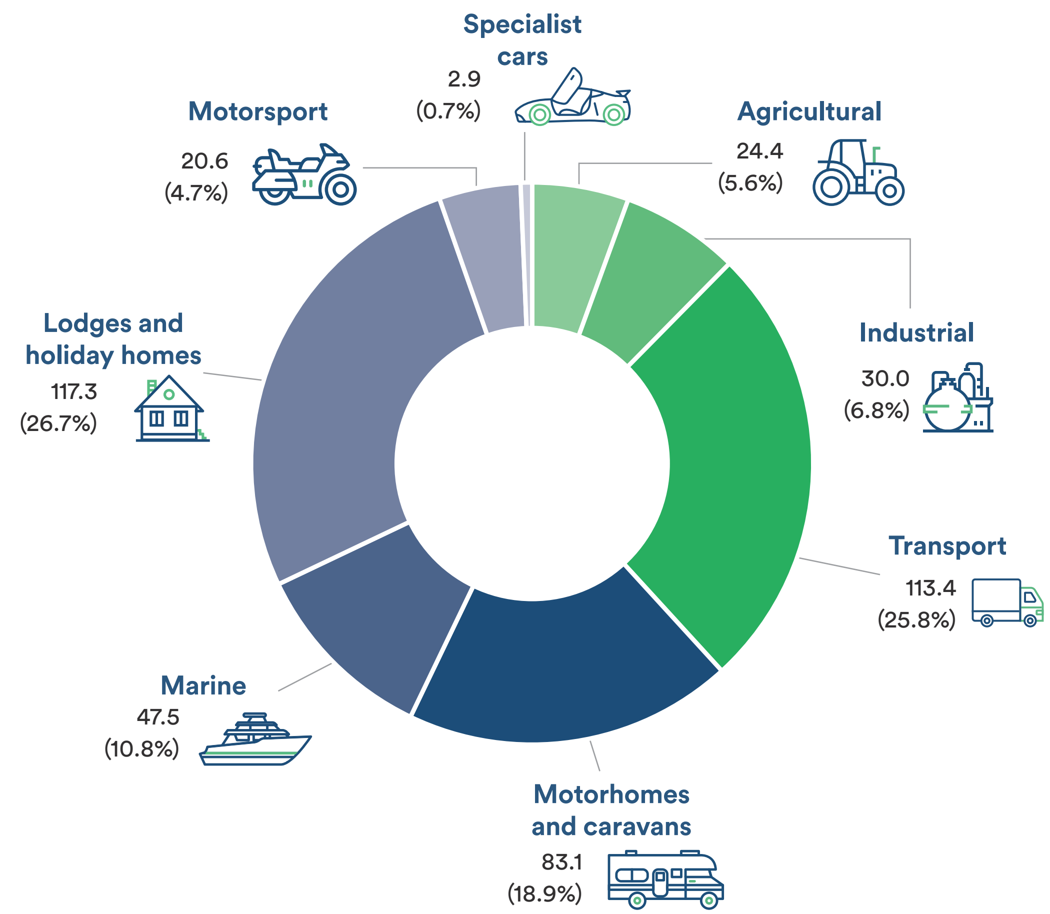
1. delivering growth;
2. putting our customers' needs first; and
3. acting sustainably.

2022 has been an exceptional year for DF Capital. As well as achieving maiden profitability, we have delivered record levels of new loan origination, exceeding £1bn for the first time; an increase of 45% on the prior year (2021: £690m). The Group's loan book grew significantly by 76% to £439m at 31 December 2022 (2021: £249m), clearly demonstrating the strength of our relationships with dealers and manufacturers.

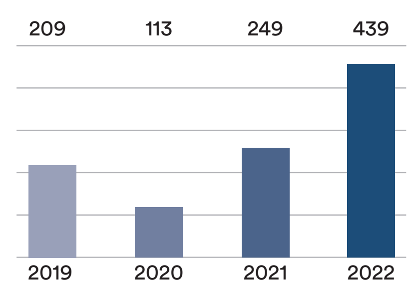
Throughout the year, we have maintained a highly diversified mix of assets across our core sectors, achieving double-digit percentage growth in all sectors. Our commercial lending (non-leisure assets) comprised 38% of the loan book at the year-end (December 2021: 37%).

Whilst growth in lending enables our ambitions to deliver mid-to-high teens returns, ensuring we continue to achieve at least a 6% net interest margin (NIM) is a critical component of our returns journey. Despite rising retail deposit rates and given the fees we charge our lending customers are directly linked to Bank of England Base Rate, we have effectively balanced pricing and growth through the year, achieving a consistent 6.5% net interest margin (2021: 6.5%).

Portfolio by sector - year end 2022 (£m)

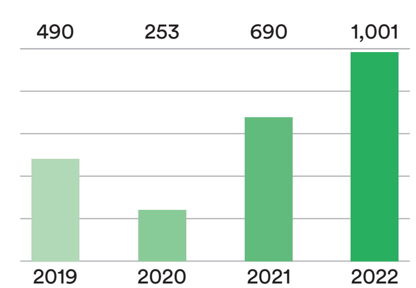


Loan book (£m)



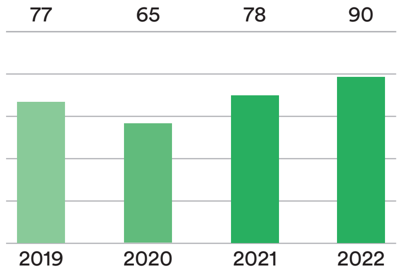
How much we have lent our customers

New loans advanced to customers (£m)



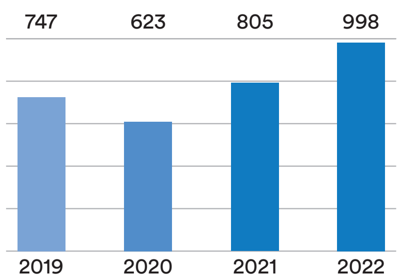
Volume of business our lending has supported during the year

Number of manufacturer partners



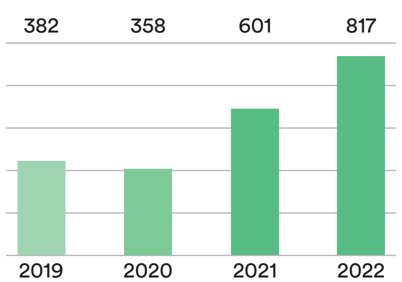
Number of vendors and manufacturers with whom we have programmes that support our lending

Number of dealer customers



Number of borrower relationships

Total credit lines (£m)



Amount of credit available to our customers to draw

Supporting a record number of dealers and manufacturers

Our strategy in how we will scale the bank remains unchanged. In our core lending product, we are focused on supporting more manufacturers and dealers, providing them with increasing aggregate credit lines and offering the exceptional levels of service that makes it easy for our borrowers to do business with us. During the period, we have increased our manufacturer and distributor partners to 90 (2021: 78) and now provide facilities to almost 1,000 dealers (2021: 805). Aggregate credit lines hit £817m, up 36% on the prior year (2021: £601m) which underpins the growth we have seen in our loan book.

It is fair to say that across the majority of sectors, dealers have experienced continued strong demand for their products. End-user demand in leisure assets (such as motorhomes, caravans, motorcycles) has remained particularly elevated. As we progressed through the year we saw a modest slowing of sales that has seen our average stock turn extend to c.120 days from c.105 days during 2021, still below our normalised historical average of approximately 150 days. Availability of product, particularly in the transportation sector, has remained challenging through much of 2022, given continuing issues in China and COVID-19 outbreaks. As we closed the year, with supply chain logistics normalising there were significant volumes of light commercial vehicles en-route to the UK, which we expect to flow through to dealers during 2023.

We entered the specialist car market during the year. Whilst this remains a relatively small part of our lending activity today, we have learnt a lot through our early activities that will allow us to develop our proposition and achieve growth in this sector during 2023.

Whilst we are undoubtedly pleased with the loan originations and where our loan book closed the year, we continue to operate in an environment that is fraught with uncertainties and far from normal. Working closely with our manufacturer partners and having deep relationships with our dealer customers allows us to respond quickly to their needs and navigate these unpredictable times.

Maintaining high levels of service

Putting our customers' needs first and providing them with exceptional levels of service is critical to our proposition. Our lending activities are highly digitised coupled with human-touch relationship management. We are relentless in our focus on automation and continuous improvement, to allow accessing finance from us easier for our borrowers. Having explored the benefits of Robotic Process Automation and Optical Character Recognition, these are efficiency and digitalisation techniques that we have adopted and are now very much embedded in the firm. We have invested in resources to help accelerate implementation of continuous improvement projects, which in turn we expect to support our cost-to-income ratio ambitions.

Understanding what delights our customers is important to us. We measure customer satisfaction across a number of touchpoints and this important feedback helps define areas for service improvement. We measure customer satisfaction using Net Promotor Score, and whilst we are delighted to have received another strong result of +41 in our most recent survey (2021:+42), we are not complacent. We recognise that evolving our products and services, whilst making sure we continue to meet customer expectations in a world where technology is continually advancing is critical.

Successful retail deposit capability

Now over two years since we launched our maiden savings products, we are recognised more widely as a quality provider of retail deposits. We offer well-priced savings products across an array of tenors, through a digitised savings platform, backed up by our award-winning in-house customer service team. Given the digital nature of our retail deposit capability, our platform is significantly scalable from where we are today. We believe we offer a uniquely DF Capital experience and that is reflected in our customer satisfaction scores at 4.7 stars (2021: 4.6) as measured by feefo.

Having placed significant focus on existing customer retention, we have built a loyal depositor base. Offering existing customers attractive priced loyalty products as they reach maturity of their fixed rate bonds has seen retention rates of over 70%.

We closed the year with £480m of deposits (2021: £297m). We continue to leverage best buy tables to alert new customers to our rates. The retail deposit market has remained buoyant, and we have found it easy to raise the liquidity to support our lending activities. We have continued to build a well-diversified range of product maturity profiles in both the notice and fixed rate markets.

feefo

Exceptional Service 2023 feefo

Gold Trusted Service Award 2023 feefo

Growth in core lending

Scaling the bank by growing our lending remains our priority. The routes to growth in the core lending products are many: increasing facility utilisation and active dealers; bringing onboard new dealers; targeting new manufacturers and entering new sectors.

Having a significant pipeline of potential dealers supports much of our ambition for growth, that being said, we are operating in an environment where careful selection of dealers, who meet our credit criteria is important. We continue to validate and refine pipeline and new sector opportunities. Our lending capabilities are transferrable; we see potential to consider new asset classes, have ambitions to support greener products where our inventory and distribution finance solutions could provide secured lending against serialised assets.

Building new product capabilities

We believe entering adjacent markets is a critical component in the delivery of our medium term returns ambitions. We continue to explore both organic and inorganic strategic opportunities. Throughout the year, we have proactively considered business acquisitions that could accelerate our product development ambitions, particularly for “lending beyond the forecourt”, such as hire purchase and leasing. The uncertain economic environment and increasing interest rates to combat inflation has made us more cautious in our endeavours. We know what a good acquisition or partnership should look like, the return potential required and accordingly have set a high bar.

Our efforts in this regard have helped frame an organic or self-build growth plan. We are clear on what we would need to invest, in both people and technology, to ensure we could safely and securely lend to end-users, ultimately supporting our dealers and manufacturers to sell more products. There remains strong demand from our existing customers to build a deeper multi-product relationship with us. Accordingly, the development of a retail lending product (such as hire purchase or leasing), aligned to the sectors we support today, feels inevitable, at some point in the near future, when the economic environment best allows us to successfully make the necessary investment. We continue to explore opportunities to partner with other funders to bring our product development ambitions to life.

As a small bank, we find it beneficial to test new lending opportunities in a controlled and small-scale way. These opportunities generally support our own strategic ambitions, allowing us to leverage our banking licence to lend in areas where we achieve our risk adjusted returns objectives, whilst building valuable insight through a “test and learn” approach. We consider types of wholesale funding (ie. lending to non-bank lenders) as an attractive opportunity that could underpin any future strategic partnership in existing or new product types. As a firm we have many opportunities, often presented to us, to build on our banking franchise, leverage our ability to raise deposits and put capital to work, whilst always achieving our target risk adjusted returns.

Our culture, being an outstanding place to work

At the heart of what we do at DF Capital is our culture. We are a bank that strives to do the right thing for its customers, employees, the environment and its communities. We believe this preoccupation about acting sustainably starts with our employees and will ultimately define the quality of shareholder returns.

In October 2022, we participated again in the “Best Companies to Work for” survey. Throughout the year, we have built on the feedback we received from the December 2021 survey. Over 95% of our employees provided their feedback this time around (2021: 98%) on what we do well and where we can make further improvements in how we do things and what we do. It has, therefore, been a personal highlight to see the progress we have made in improving employee satisfaction, being accredited as an Outstanding place to work. Our employees believe the firm operates with sound values and a positive culture that allows them to flourish and be at their best.

The Group now features in the UK’s top 5 financial services firms to work for (2021: 13th); top 15 North West companies to work for (2021: 48th); and 14th in the UK’s top 75 mid-sized companies to work for (2021: 52nd).

OUTSTANDING
TO WORK FOR
2022
cert.b.co.uk

FINANCIAL SERVICES'
TOP 5
BEST COMPANIES
TO WORK FOR
Q1 2023

THE NORTH WEST'S
TOP 25
BEST COMPANIES
TO WORK FOR
Q1 2023

THE UK'S
TOP 25
BEST MID-SIZED COMPANIES
TO WORK FOR
Q1 2023

Outlook

We have seen continued momentum in lending during the first quarter, a critical period for dealers to re-stock. New loan origination exceeded £270m, with the Group’s loan book reaching £505m as at 31 March 2023, up 15% since the start of the year.

Whilst loan origination levels have continued to be very strong, end-user demand for product has also remained higher than expected, particularly in the motorhome and caravan sectors. A deeper contraction in discretionary spend across a number of sectors had been expected, which in turn would lead to a slowing of stock turn through the period. Whilst stock turn has now reached c.130 days, up from 120 days for FY 2022 (FY2021: 105 days), it remains significantly below seasonal expectations and our historical average of 150 days, leaving scope for further improvement in this area. Across the transportation sector, a catch-up of product delivery at the end of 2022, caused by COVID-19 outbreaks in China, has seen a mismatch of dealer demand for electric vehicles which are now physically in the UK against diesel vehicles that remain in transit. This has slowed loan origination in this sector specifically, which represents approximately 20% of our loan book, but is expected to be rebalanced through the balance of the year.

During the quarter, we have extended our product offering for a key client relationship, providing receivables financing or better known as invoice discounting to support their sales activity. We have also taken the first step to “lend to a lender” or wholesale funding, which could form the basis of an expected future partnership with an asset-based lender who provides hire purchase to businesses. Whilst both lending opportunities remain small in the context of our entire loan book at c2%, they present attractive future potential for the Group as we look to build even deeper relationships with our manufacturer and dealer partners through adjacent lending opportunities, alongside any organic approach to product development and/or business acquisition.

Notwithstanding the uncertain economic backdrop, we feel confident about the year ahead. With the expectation of achieving a loan book in the range of £550m-£600m by the close of 2023 and, in the near-term, net interest margin above our target of 6%, coupled with better-than-expected loss performance and lower arrears in light of the faster loan repayment, the Board believes that full year performance for the financial year ending 31 December 2023 will be materially ahead of management expectations, building on our outperformance in 2022 and a profitable (unaudited) first quarter of 2023.

DF Capital operates in very large diversified markets where we continue to see demand and have opportunities to lend in adjacent markets and, can develop new products and explore tactical transactions that play to our strategic ambitions. Collectively these initiatives underpin our ability to scale the bank. With the support of the British Business Bank’s ENABLE Guarantee, our existing Tier 1 capital base and our activities to consider non-dilutive Tier 2 capital, we have the firepower to support our growth ambitions in 2023.

Carl D’Ammassa
Chief Executive Officer

Chief Financial Officer's Report

Gavin Morris
Chief Financial Officer

Dear Shareholder

We are delighted to report a full year pre-tax profit of £1.3m (2021: Loss £3.7m).

Significantly increased gross revenues underpinned by strong yield

Gross revenues, which are predominantly comprised of interest and facility fees, increased by 97% to £26.8m (2021: £13.6m) and reflects the increase in the average loan book during the year.

Gross yield in the year increased to 8.2% (2021: 7.9%), reflecting the impact of increasing Bank of England base rate and pricing on newly originated loans, benefitting from these base rate movements.

The average cost of retail deposits during the year increased to 1.90% (2021:1.16%). This increase reflects the significant increase on new product retail deposit rates during the year driven by the Bank of England base rate increasing from 0.25% as we entered 2022 to 3.5% by the close of the year. Our deposit book is an array of fixed rate tenors and therefore the increasing deposit rates will take time to fully flow through to the deposit book as a whole, as maturing deposits are replaced.

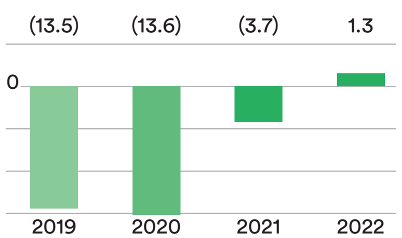
Net Interest Margin (NIM), which is gross yield less interest expense, was stable at 6.5% (2021: 6.5%) reflecting our ability to pass on base rate rises to our dealers as our underlying deposit interest rates increased. This was ahead of our NIM target of 6%.

Strong arrears and impairments performance

We have continued to intensively manage our loan portfolio and arrears position. Despite the macro-economic uncertainty, we have continued to see a low number of arrears cases during the year. However, the total value of arrears increased to 1.6% of the loan book at 31 December 2022 (31 December 2021: 0.4%). This arrears balance includes £4.7m of arrears in respect of one obligor who is in the process of completing a major refinancing of their balance sheet, after which we expect to be fully repaid. The arrears excluding this single obligor would have been 0.6%. We are pleased with the underlying quality and financial strength of our dealer obligors, many of which came out of the pandemic achieving record levels of sales and profitability.

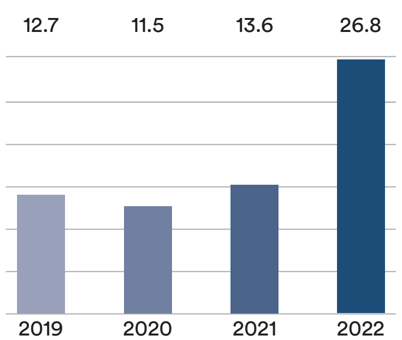
As a percentage of average gross receivables, the Group's cost of risk for the year increased to 0.74% (2021: 0.32%). In 2021, our cost of risk benefitted from a reduction in the level of COVID-19 overlay in our IFRS9 model given the improving economic conditions and outlook for the UK economy at that time. During 2022 the Group has released the remaining COVID-19 provisions and replaced this with a cost-of-living and associated economic uncertainties model overlay.

Profit/(loss) before tax (£m)



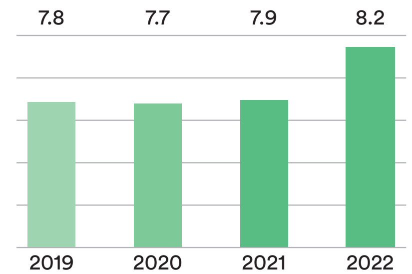
Profit/(loss) before tax per the Statement of Comprehensive Income

Gross revenue (£m)



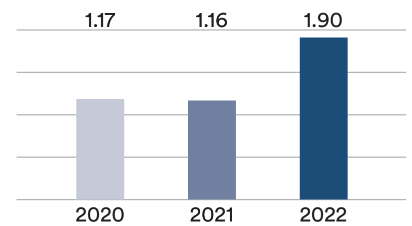
The interest and fees we earn on our loans, bank balances and debt securities, and net gains from derivatives

Gross yield (%)



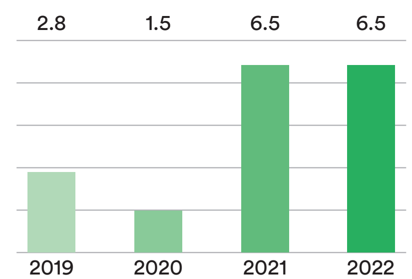
The effective interest rate we charge our customers including fees

Average cost of retail deposits %



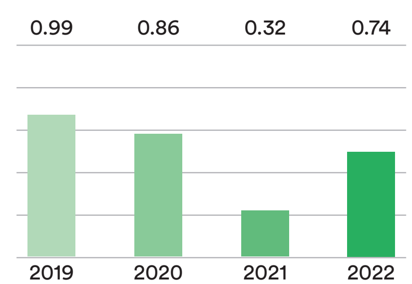
The weighted average interest rate we pay our depositors

Net interest margin (%)



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

Cost of risk (%)



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

Summarised Statement of Comprehensive Income

	2022 £'000	2021 £'000
Gross revenues	26,842	13,641
Interest expense	(6,411)	(2,338)
Net income	**20,431**	**11,303**
Operating expenses	(16,831)	(14,507)
Impairment charges	(2,296)	(556)
Provisions for commitments and other liabilities	0	25
Profit/ (loss) before taxation	**1,304**	**(3,735)**
Taxation	8,457	59
Profit/ (loss) after taxation	**9,761**	**(3,676)**
Other comprehensive (loss)/income	(79)	(162)
Total comprehensive profit/ (loss)	**9,682**	**(3,838)**

Arrears (£'000)

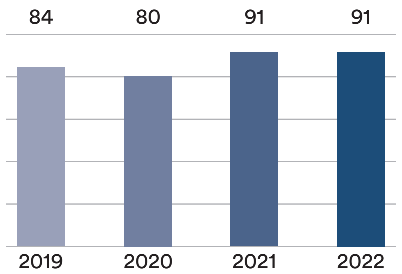
Arrears - principal repayment, fees and interest

	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19
1-30 days past due	136	105	27	643
31-60 days past due	1,084	834	22	225
61-90 days past due	25	0	39	87
91 days + past due	5,885	164	132	762
	7,130	**1,103**	**220**	**1,717**
% Loan book	**1.6%**	**0.4%**	**0.2%**	**0.8%**

Associated principal balance

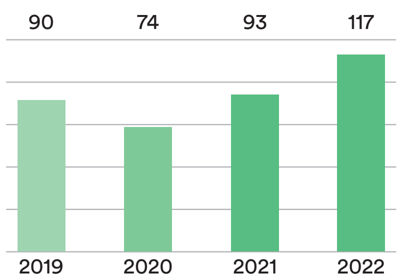
	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19
1-30 days past due	2,016	951	96	5,505
31-60 days past due	1,512	834	7	482
61-90 days past due	214	0	14	226
91 days + past due	16,317	184	259	857
	20,058	**1,970**	**376**	**7,070**
% Loan book	**4.6%**	**0.8%**	**0.3%**	**3.4%**

LTV %



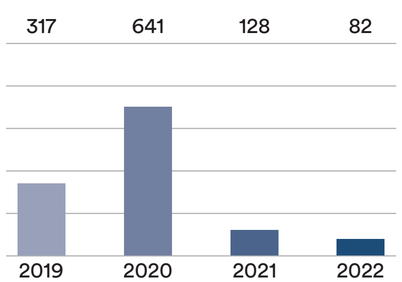
Value of dealer loans outstanding compared to wholesale value

Headcount FTE



Total number of full time equivalent employees

Cost to income ratio (%)



Operating cost as a % of net income generated

The combined stage 1 and 2 impairment allowance at 31 December 2022 as a percentage of gross receivables was 0.46% (2021: 0.52%) which reflects the improved weighted average risk rating of the portfolio, the relatively low number of arrears cases and the estimated impact of the prevailing economic uncertainties on our customer base. These estimates remain higher than we have seen during 2022 but we believe align with broader external economic indicators. The total impairment allowance (comprising stages 1, 2 and 3) at 31 December 2022 as a percentage of gross receivables was 0.84% (2021: 0.69%).

Strong security position

In our core lending product, we provide working capital to UK based dealers secured against their inventory or stock. Loans are advanced, in the main, 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 2022 was 91% (31 December 2021: 91%). 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 security position 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 c25% in retail prices across the sectors and asset classes we support.

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 c65% of our core loan book (2021: c60%).

Unlocking operational leverage

We have continued to unlock the business' operational leverage given our highly digitised client facing processes, with ongoing investment in areas to support growth and scaling of the business, such as API-connections with dealers, robotic process automation (RPA) and character-recognition technologies. We believe we are building further scalability into our operational capabilities and much of the cost we need to support our near-term loan book targets is already embedded.

Headcount increased to 117 at December 2022 (December 2021: 93) reflecting the actions taken to strengthen and widen the reach of our commercial team in addition to bolstering our risk resources. We have carefully managed the inflationary pressures impacting our operating cost base, however, we are mindful of the cost of living pressures faced by a number of our employees. We, therefore, implemented two separate salary increases in April and October 2022 across the majority of our employees. Operating expenses increased by 16% to £16.8m (2021: £14.5m). This increase in operating expenses is considerably lower than the relative increase in net income, meaning our cost to income ratio has reduced significantly to 82% (2021: 128%). We expect to see further reductions in this ratio as we scale the business, underpinning the delivery of our return ambitions.

Recognition of deferred tax asset

The Directors expect profitable growth going forward and therefore believe it is probable the Group will be able to utilise the remaining tax losses in DF Capital Bank Limited. On this basis a deferred tax asset of £8.5m has been recognised. This gives a profit after tax for 2022 of £9.8m (2021: Loss £3.7m).

Well capitalised balance sheet supports lending ambitions

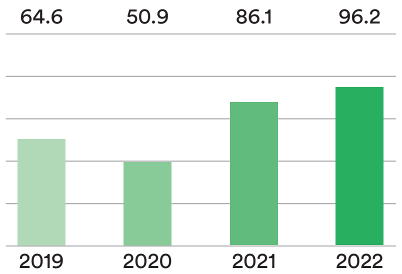
With equity at the year-end of £96.2m (December 2021: £86.1m), this gives us sufficient regulatory capital to support a loan book in excess of £0.5bn.

In January 2023 we agreed an initial £175m ENABLE Guarantee with the British Business Bank, which may also be increased in the future to £350m. This Guarantee commitment provides the Group with incremental capacity to scale its loan book without the need for additional Tier 1 equity capital by up to £75m on the basis of the initial £175m facility and up to £150m if the facility is increased to £350m. The Group continues to explore options to raise non-dilutive Tier 2 capital to further support its product diversification and medium-term growth strategy.

Our CET1 ratio at 31 December 2022 was c.22% (31 December 2021 c38%); well above our regulatory capital minimum limits.

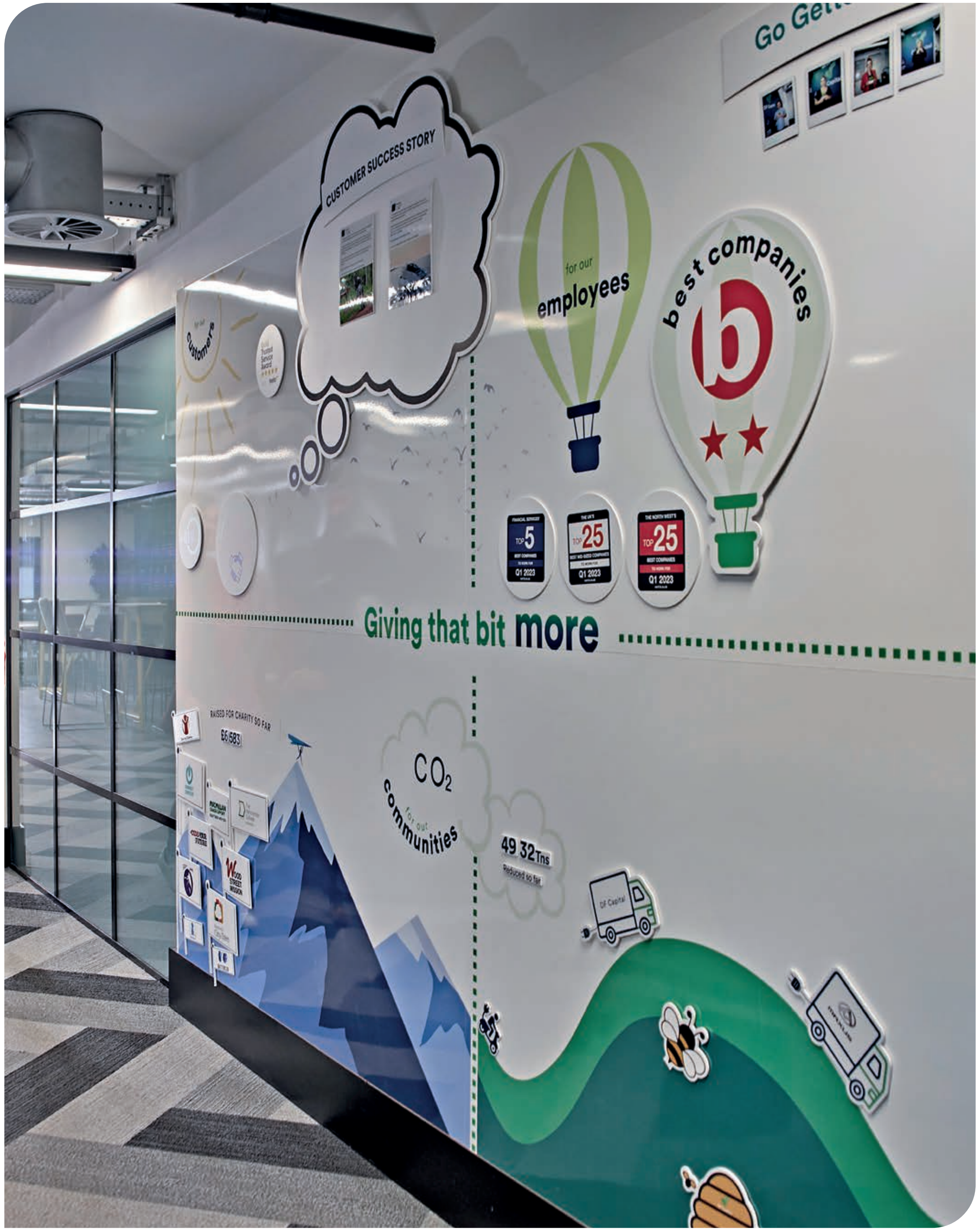
Gavin Morris
Chief Financial Officer

Net assets (£m)



The equity held in the group

Acting Sustainably



Acting Sustainably

Charlie Michael
Chief Sustainability and People Officer

Dear Shareholder

Giving back to our communities, thinking of the environment and climate change, delivering for our customers and building value for our shareholders are anchored to the hard work, passion, innovation and advocacy of our people.

We believe that running our business in a responsible way and carefully managing the impact we have is the best way to create a more sustainable future for all. Caring for people and the environment are core to our decision making. Having effective governance and controls, as well as a clear strategic purpose, brought to life by a great team of people is the key to delivering our sustainability goals.

We are serious about sustainability and believe having a focus and objectives builds greater resilience into our business model. At the start of the year we launched our Sustainability Scorecard. The scorecard includes a number of performance metrics that help us track progress and measure impact against our four sustainability pledges.

Whilst we still have much to do, and we aren't where we want to be against every metric, you'll see from this year's scorecard that we have still made significant progress. It's undoubted that the next chapter is ours to create and we are only just starting on our sustainability journey. That being said, we definitely feel that we've had a positive impact on our customers, colleagues, communities and the environment in 2022.

2023 will see us doing more to support our customers, building upon our diversity and inclusion commitments, having greater impact across our communities and increasing our alignment with the Task Force on Climate-related Financial Disclosures. We will also continue to seize opportunities and manage risks through our sustainability strategy.

The remainder of this year's "Acting Sustainably" section of the annual report, brings to life some of what we've achieved in 2022 against our four pledges, building on the great start we made in 2021. I am extremely proud of the DF Capital team's commitment and drive to make acting sustainably part of their everyday.

I hope you enjoy reading it just as much as we enjoyed making it happen.

Charlie Michael
Chief People & Sustainability Officer

For Our Customers

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

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 c60% growth in retail deposits and c76% growth in our loan book suggests we are getting something right. At the end of the year we supported 90 manufacturers (up c14%) , 998 dealers (up c24%) and over 12,600 depositors (up c57%).

We have continued to enhance the way we deliver our products and services through our digitally enabled platforms. Whether a depositor and 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.

Deploying robotic process automation and optical character recognition has allowed us to direct more of our people resources towards relationship management and client facing activities through the period, automating manual back-office processes and speeding up our service proposition.

Supporting greener lending

Our drive to support greener lending opportunities has continued. We have provided inventory finance for 4,989 low carbon electric vehicles, increasing the overall percentage relative to vehicles with internal combustion engines from 16.8% to 26.9%.

We believe that our lending product could support other greener asset classes, where serialised assets are held in stock and distributors look for working capital solutions. We are currently exploring the viability of such lending and hope to make strides forward during 2023.

Listening to our depositors

Since becoming a bank, we have been committed to providing great savings rates in a clear and transparent way. We want opening an account with us to be straightforward and quick. We obtain rich and timely feedback from our customers on how they have found dealing with us. We review each and every review placed on feefo. We have received over 1,700 reviews over the last year and an average feefo score of 4.7 stars (out of 5). We received the Gold trusted service awards in 2021, 2022 and again at the start of 2023. We have also received a feefo “Exceptional Service” award, one of just 32 firms chosen by feefo for outstanding service.

During the year, we deployed a number of depositor retention initiatives, given the maturity of a number of fixed term bonds. We believe retaining clients at the end of their fixed term is highly valuable to us and helps us raise the profile of DF Capital through recommendations. We have offered loyalty and retention rates exclusively for existing customers and have seen over 70% retention, helping depositors secure great savings rates in a rising rate environment.

The feedback we receive from our customers forms the basis of our continuous improvement regime, ensuring we continue to meet customer needs and continues to inform our product development strategy.

Customer Scorecard

			2022 actual	2021 actual	Our target
Satisfied customers	Net promoter score	Measure of lending customers recommendation of our products and services	+41	+42	+30 or greater
	feefo	Savers rating of our products and services out of 5 stars	4.7 stars Gold Trusted Service Provider	4.6 stars Gold Trusted Service Provider	>4.5 stars
	Complaints ratio	No. of complaints per customer (savers + dealers + manufacturers)	0.36% of customers	0.27% of customers	<0.5% of customers
Supporting growth	Supporting early stage businesses	No. of early stage (<2 year old) businesses provided with new lending facilities	17 dealers with credit lines totalling c£8.8m	15 dealers with credit lines totalling c£6m	£30m (2022)
Supporting innovation and low carbon initiatives	No. of low carbon assets funded	No. and value of low carbon assets funded	4,989 green assets funded totalling £194.7m	3,784 green assets funded totalling £142.4m	Identifying appropriate target relative to growth plan

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

Understanding our lending customers in greater detail

Acting on live feedback from our dealer and manufacturer partners is how we work at DF Capital. Our team of relationship managers are in frequent contact with our borrowers so we have a good sense of how we are doing and where we can make quick adjustments to make dealing with us 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. Again this year, our NPS score exceeds the benchmark at +41.

We have also started to dig deeper in understanding customer satisfaction. We measure how trusted we are by our customers (Trust Equation) but also how easy it is to do business with us (Customer Effort Score).

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 both measures have no external benchmarks, they are a useful internal assessment as to how we are doing on a relative basis. We want to ensure that we make incremental progress year-on-year.

For 2022, our Customer Effort Score increased by 5pts to 91%, with our Trust Equation remaining broadly unchanged at 8.9.

The combination of NPS, Trust Equation and Customer Effort Score are critical measures that we will continue to use to determine the extent that we are meeting our aims of putting our customers’ needs first and becoming their bank of choice.

Who we’ve helped in 2022

Sector	Manufacturers	Dealers	Assets	New loans (£m)
Agricultural	12	206	2,739	60
Industrial	3	40	1,007	67
Transport	4	60	5,957	201
Motorhomes and caravans	19	165	7,753	276
Lodges and holiday homes	19	253	4,540	204
Marine	9	53	589	125
Motorcycle	24	210	9,490	60
Specialist cars	-	11	116	8
Total	**90**	**998**	**32,191**	**1,001**

Better understanding customer satisfaction

Trust Equation

Credibility
8.29 8.12
Rating the quality of our products and services

+

Reliability
8.27 8.42
Rating our ability to deliver on our promises

+

Intimacy
8.13 8.39
Rating how well you understand our products/ your facility?

÷

Self-orientation
2.75 2.80
Rating how focused we are on our customers’ needs

=

Trustworthiness score of
8.98 8.90

Key
2021 2022

Credibility, reliability and intimacy are scored 1-10, with 10 being high. Self-orientation is scored 1-10 with 1 being high.

Customer Effort Score

2021	2022
86%	91%

% of respondents who agree that we make it easy to do business.

For Our Employees

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

Understanding our Culture

We pride ourselves on being one of the best places to work in the UK, being able to attract and retain the best talent in the industry because of who we are, what we do and how we do it. We work hard to create an environment where our people feel empowered to make a real contribution to our business and feel valued for what they do. We do this by having a clear purpose and vision, providing colleagues with countless opportunities to learn and grow, cultivating a place where they can thrive and grow, embrace change effortlessly and feel they can do the right thing, but just as importantly, ensuring they bring who they really are to work every day.

We were absolutely thrilled to achieve a 2 Star accreditation from Best Companies following our recent colleague survey, which builds on our "One to Watch" accreditation from 2021. Hearing that 91% of our colleagues love working for us; 91% feel proud to work at DF Capital; and 96% feel DF Capital is run on strong values and principles truly demonstrates that DF Capital is an outstanding place to work.

Feeling fulfilled – developing our People

We've created an environment where our colleagues can learn, develop and grow their career their way. As a small firm, with a flat organisational structure, colleagues get involved in a rich range of projects and workstreams across the whole business, as well as learning new skills on the job, through formal training and the acquisition of new qualifications.

During 2022, our financial investment in developing our people averaged £1,337 per employee, almost double from the prior year (2021: £700). Our colleagues have access to a learning platform with over 16,000 online courses designed to develop soft and technical skills, knowledge and competencies. 95% of colleagues are active users of this platform.

Job shadowing, taking on a new project, or joining a mentor programme are some of the additional developmental opportunities we present to our team.

c20% of our workforce has taken on a new opportunity and moved roles throughout the year. 35% of those promotions were into leadership positions, supported by the provision of our own in-house leadership programme. This programme is focused on equipping our leaders, and those with roles of influence, with the skills, competencies, behaviours, and ultimately confidence to lead teams right across the bank the "DF Capital way".

Feeling included - embracing and celebrating our differences

We believe having a diverse workforce brings innovation and delivers better outcomes for our customers. For us diversity stretches beyond gender. Whatever your gender, age, religious beliefs, sexual orientation or ethnicity, you should feel at home working at DF Capital. We are committed to fostering an inclusive environment where our employees are encouraged to be who they want to be and can thrive. Our inclusion agenda is vast, we've focused on unconscious bias training, raised awareness through colleague led podcasts, we've celebrated cultural and religious festivals and provided mental health and financial wellbeing support to name just a few.

Employee Scorecard

			2022 actual	2021 actual	Our target
Developing our people talent	Attracting new talent	New employee to the Company	51	24	-
Developing our people talent	Retaining talent	Rolling 12 month average employee retention rate	81%[1]	90%[1]	>90%
Developing our people talent	Building a career	Employees taking on a new opportunity in the Company	20% of all vacancies were made internally or via colleague referral	21% of our workforce were internally promoted	20% of all vacancies are made internally or via colleague referral
Developing our people talent	Growing our own leaders	Employees stepping in to a leadership role	35% of our promotions were into leadership roles	50% of our promotions were into leadership roles	>30%
Developing our people talent	Developing our people	Formal or qualification spend per employee	c£1,337	£700	£1,500 (2024)
Developing our people talent	Employee development hours	Hours of training or development completed by employees	Launched CPD measuring tool in Q4 2022	-	>75 hours per employee (2025)
Thriving workforce	Best Companies Participation	% of employees participating in our annual employee survey	95%	98%	>90%
Thriving workforce	Best Companies Score	Result of annual employee survey	717 (2 STAR)	641 (OTW)	660 (1 STAR)
An inclusive workplace	Board diversity	Diversity composition of board (gender and ethnicity)[2]	50%	25%[3]	50% (2024)
An inclusive workplace	Diverse workforce	Diversity composition of workfoce (all diversity characteristics where disclosed)[2]	51%	51%	>60% (2024)
An inclusive workplace	Gender pay gap	Male pay relative to female pay[4]	-10%	38.9%	<30% (2024)

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. 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).
3. Based on the Board INED composition at the start of 2021.
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.

51% of our workforce have diverse characteristics (2021: 51%) and I am pleased to report that we've already reached our 2024 Board diversity goal, having a 50% gender split amongst our Independent Non-executive directors. We have also worked hard to close our gender pay gap and have made significant progress closing the gap from 38.9% to -10% at the start of 2023, already smashing our target.

Feeling valued – looking after our People

We do not pay lip service to looking after our people. We are committed to paying our employees a basic salary that exceeds the Living Minimum Wage and accordingly have been accredited as a Living Wage employer for two years. During 2022, we paid at least 25% above living wage to all our employees. We understand that looking after our employees stretches well beyond basic salary, supporting their personal and financial wellbeing. Details of our remuneration arrangements and how we've considered the cost of living challenges, including how our employees share in our success, are laid out on pages 76-79.

We do not believe supporting our employees' wellbeing is a short-term initiative, it is core to our people strategy. We therefore offer a full suite of support tools and programmes designed to ensure our employees take care of their mental, physical and financial wellbeing. Highlights include:-

- Providing access to a Digital GP, Help@Hand which offers access to remote GPs, mental health support, physiotherapy, medical second opinions and wellbeing support;
- If diagnosed with, or having difficulty with a diagnosis of a serious medical condition or injury, Best Doctors connects colleagues to the best minds in medicine to help ensure they get the right answers about their condition, diagnosis, or treatment plan;
- Employee assistance programmes that give direct remote access to councillors and therapists for all employees and their families;
- Eldercare offers advice and support when colleagues are caring for a family member;
- Occupational Health support for those who are struggling with their physical and mental health in the workplace.

Benefits of being a DF Capital employee

- 'Living Wage' employer
- Annual bonus participation
- Share awards and Save As You Earn
- Recognition awards
- Pension scheme
- Flexible hybrid working arrangements
- Private medical cover
- Digital medical assistance through Babylon, Help@hand and Best Doctors
- Income protection
- Life assurance
- Employee Assistance Programme
- Eldercare
- Free eye care vouchers
- Pension scheme
- Gym membership
- 30 days annual leave
- Emergency financial support and transport loans
- Cycle to Work scheme
- Electric vehicle salary sacrifice scheme
- Electric vehicle for business need colleagues
- Learning hours and extensive training and development
- LinkedIn Learning to develop skills
- Giving back – volunteer leave
- Biannual company events and celebrations
- Fundraising social events and activities
- Celebrating religious and cultural holidays
- Well stocked kitchen with treats and refreshments

Some recipients of our Go Getter awards, nominated by their colleagues for going above and beyond.

Colleagues attending an all-employee update with the Board of Directors

For Our Communities

We will contribute to building stronger communities, wherever we do business

A strong social conscience

We have a passion for giving back to our local communities. We believe strong local communities benefit our customers and employees. We heard through the Best Companies survey that 92% of our colleagues feel the organisation has a strong social conscience. We were thrilled to hear this, as it's very important to us that we play a good role in society, conduct business as our regulators would expect and ensure we meet all relevant legislation.

Giving back to our communities

Building stronger communities wherever we do business is high on our agenda. We work hard to support many charitable and community initiatives throughout the year. Giving back is in our DNA. Some highlights:

- We give all our colleagues three days each year, to volunteer in their local communities enabling them to build a stronger connection with the causes important to them;
- To support volunteering days, we partner with OnHand, launching an all-in-one tool to engage employees in local volunteering and climate action. Since launch in June 2022 our colleagues completed 1,360 missions, spent over 1,700 hours volunteering in the community, reduced their carbon footprint by 48.76 tonnes and planted 959 trees;
- We've held Bake offs to support charities including The Proud Trust, Macmillan and The Pankhurst Trust; we've hosted craft nights – pot painting, dog and cat toy creating, and wreath making helped us support City of Trees, Save the Children, Battersea, and Bleakholt Animal Sanctuary;
- We've participated in the Dragon Boat Race, coming 4th and raising funds for Wood Street Mission;
- We encouraged everyone to participate in Movement May – collectively, we travelled over a 4 week period a massive 6838km from Manchester to The Biloweiza Forest to support Manchester City of Trees;
- We sponsored some Bee Hives, which are now home to around 120,000 bees;
- We supported the Wood Street Mission Christmas Campaign to help ease the pressure that local families were facing at Christmas time, so they could enjoy the festive season with their children.

Communities Scorecard

			2022 actual	2021 actual	Our target
Giving back	Total raised for charities	Donations made to charity following fund-raising efforts	£6,583	£3,032	£5,000
Giving back	Employee volunteering hours	No. of hours spent by employees giving back to their communities	41 hours[1]	-	>35 hours per employee (2024)

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

1. average per month, per employee taken over a 6 month period since launch and annualised

Supporting social mobility

We are very proud to have supported "CodeYourFuture" for yet another year, providing them with office space and access to experts within the DF Capital team.

CodeYourFuture is a UK based non-profit organisation that trains some of the most deprived members of society to become web developers and helps them to find work in the technology industry. We're excited to continue our relationship with Code Your Future during 2023, and also look forward to exploring new partnerships and social mobility opportunities.

We want to do more

Building on our successes, we have already formalised our community support and engagement strategy, so that we can maximise the impact we have on the community projects we support and will be looking to work closely with existing partners and new to enable us to build stronger communities.

Collecting for Wood Street Mission and local food bank

For The Environment

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

Supporting better travel

Travel and commuting are significant aspects of our carbon footprint. We introduced a full electric company car fleet, for all our field-based colleagues. As an alternative to a car allowance, colleagues who are out on the road are able to take advantage of an electric vehicle with home charging made available to them. It's great to be able to make it easy for our colleagues to have access to greener travel.

We also encourage our office-based employees to participate in sustainable and low carbon travel initiatives. We offer season ticket loans to support the use of public transport; offer a tax-efficient Cycle to Work scheme; and have an electric vehicle salary sacrifice scheme. 10% of our workforce currently take advantage of our green commuting initiatives.

Supporting charities to offset our carbon footprint

Our people are passionate about supporting "green" charities. We have harnessed their enthusiasm by supporting the Manchester City of Trees charity for the last 2 years. City of Trees is delivering a green recovery and tackling the climate crisis by planting trees and restoring woodlands for the people and wildlife of Greater Manchester. We feel we are part of a movement that is working across multiple communities, organisations and businesses with the goal of planting a tree for every citizen in Greater Manchester. In 2022, collectively, we volunteered 105 hours to tree planting and donated £2,996 to City of Trees.

Understanding our own impact

In October, we launched our Reduce the Juice - CO_2e Eco Competition. Utilising the OnHand volunteering app, colleagues have been challenged to complete the most environmental missions over a 12 month period. Every three months the team who has offset the most carbon on average wins a prize. The initiative has been hugely successful, and so far, we've managed to clock up 54.3 CO_2e reductions.

Playing our part

As a small firm, the environmental impact from our own operations is relatively small, however we do recognise the importance of making the shift ourselves and doing everything we can to make a positive impact on the environment.

We have already made great efforts to reduce the impact our own operation has on the environment. During 2022, our emissions were calculated at 1.217 tCOe per employee (2021: 1.236 tCOe), which is extremely encouraging, considering the significant growth of our business during this period and demonstrates us making progress towards our 2025 target of 1.0 tCOe.

2023 will see us utilise a carbon accounting engine that provides the most accurate calculations which drives the ability for actionable insights, resulting in a reduction of emissions. This will allow us to have a clear plan on our path to net-zero carbon emissions.

Environment Scorecard			2022 actual	2021 actual	Our target
Managing our own carbon impact	Carbon Footprint	The impact our own office use has on the environment[1]	127.7 tC02e (1.217 tC02e per employee)[2]	111.3 tCOe or 1.236 tCOe per employee[2]	100 tCOe or 1.0 tCOe per employee (2025)
Managing our own carbon impact	Employee participation in carbon reduction initiatives	Employees participating in electric vehicle and bicycle salary sacrifice schemes or using season ticket loans for public transport	10% of our workforce have taken advantage of our green transport initiatives	9% of our workforce have taken advantage of our green transport initiatives	>15% (2023)
Managing our own carbon impact	DF Check carbon mitigation[3]	Travel avoided by our own auditors when dealers complete a DF Check asset self-audit	41%	c60% of audits saving approx. 17 tCOe	>70% (2024)

Text in brackets represents the timeline we expect to achieve the target or the baseline or floor performance as our actual performance is in excess of the target.

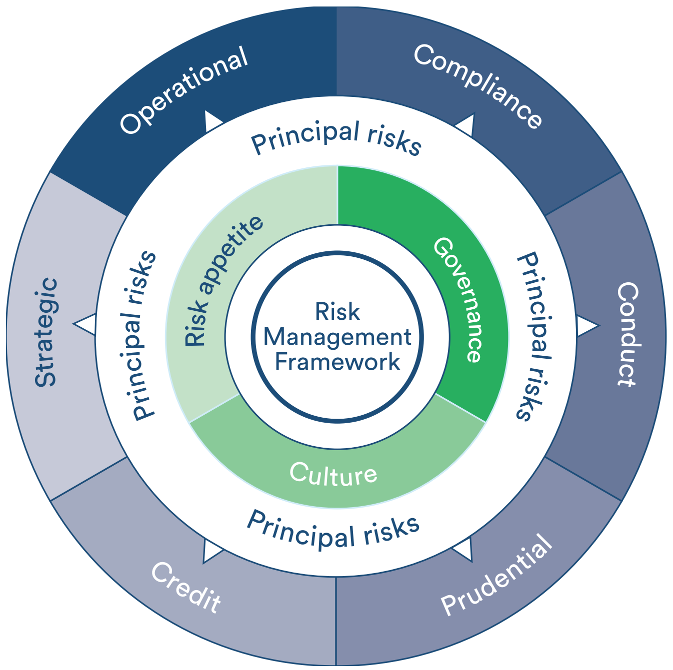
1. Our impact is defined as mileage and vehicle use, as well as electricity usage in our office.

2. tCO_2e = tonnes of CO_2 emissions.

3. This target has been removed as our auditors now have electric vehicles. Our audit team has increased in size and completing physical audits remains an important part of our risk management. Accordingly we believe we have mitigated carbon emissions by providing our auditors with electric vehicles.

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 have 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 Company, 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 Company 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 Company is willing to accept. There is a formal framework in place which establishes the granularity, requirement, and responsibility to set and allocate 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 Company 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 is based on the '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.

If the risk profile is considered too high once the assessment of risks and controls has been completed, 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

The collective of all the risk systems and controls within DF Capital is referred to as the Control Environment. DF Capital enables the Control Environment through the adoption of frameworks, 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 management 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, SMF 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 & 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 management 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 monitoring, reporting and escalation

Risk metrics

Reporting covering the risk 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 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 within 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 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 firm maintains a regulatory monitor which lists all new or changes in regulation 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 management 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. 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 stress 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 provides an assessment of DF Capital's ability to recover financially following a period of severe stress which threatens the viability of the business. DF Capital develops a Recovery Plan to assess and document the recovery options available in a range of severe stress conditions and to enable such recovery options to be activated and mobilised quickly and effectively.

The Resolution Pack provides regulatory authorities with information and analysis relating to its 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 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 & 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.

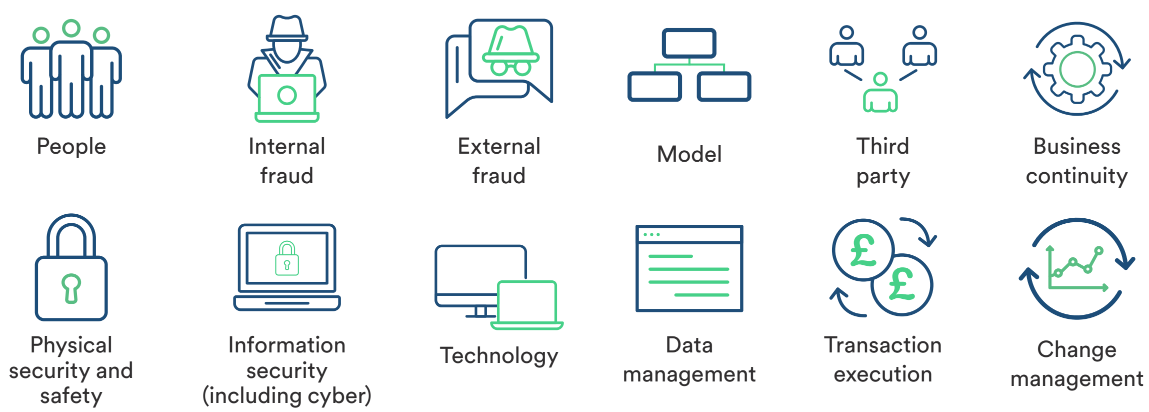
Principal Risks

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 and we have chosen at this stage to not pull them out individually but 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

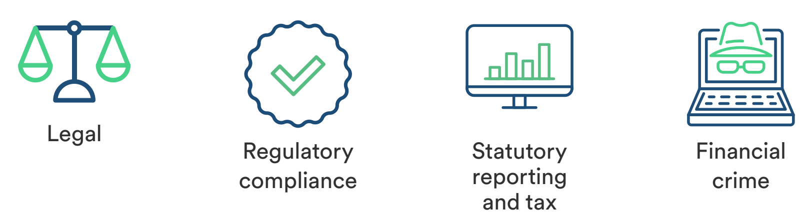
Operational risk



Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. We have a framework in place which sets out our approach to Operational Risk, with associated roles and responsibilities further defined in a number of risk policies and standard operating procedures covering the various types of Operational Risk. Although the overall scope of Operational Risk would cover areas of Conduct and Compliance (i.e. regulatory) risks, we believe it makes sense to separate these items out as individual principal risks - Conduct Risk and Compliance Risk respectively given the importance of these risks in the context of the bank's activities and regulatory environment.

Key risk mitigation tools: operational risk policies, standard operating procedures, Risk and Control Self Assessments ("RCSAs"), risk event analysis, key controls testing, ongoing monitoring of risk metrics and limits, scenario analysis, information security and cyber defences, operational risk training, Operational Forums aligned to defined customer and internal journeys, change management framework, operational resilience framework, physical security and safety, regular risk training, Executive Risk Committee oversight

Compliance risk



Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the firm may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory 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 financial crime risks for which associated risk management policies and procedures are in place.

Key risk mitigation tools: compliance policies, regulatory monitor, enterprise-wide compliance and 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 conduct outcomes. It is supported by specific policies covering topics such as product governance, complaints, and vulnerable customers which detail the specific steps and responsibilities across the firm. The scope of conduct risk coverage includes our AIM requirements, with policies such as a Market Abuse Regime Policy (including Share Dealing Code) and a Substantial and Related Party Transactions Policy.

Key risk mitigation tools: conduct risk policies, product governance, enterprise- wide conduct risk assessment, ongoing monitoring of risk metrics and limits, monitoring of complaints and customer feedback, key controls testing, Code of Ethics, conduct risk training 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 Company 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.

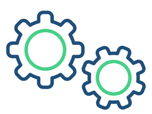
- **Funding and liquidity risk:** The risk that DF Capital is not able to meet its financial obligations as they fall due or that it does not have the tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that DF Capital has an insufficient amount or quality 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 from 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

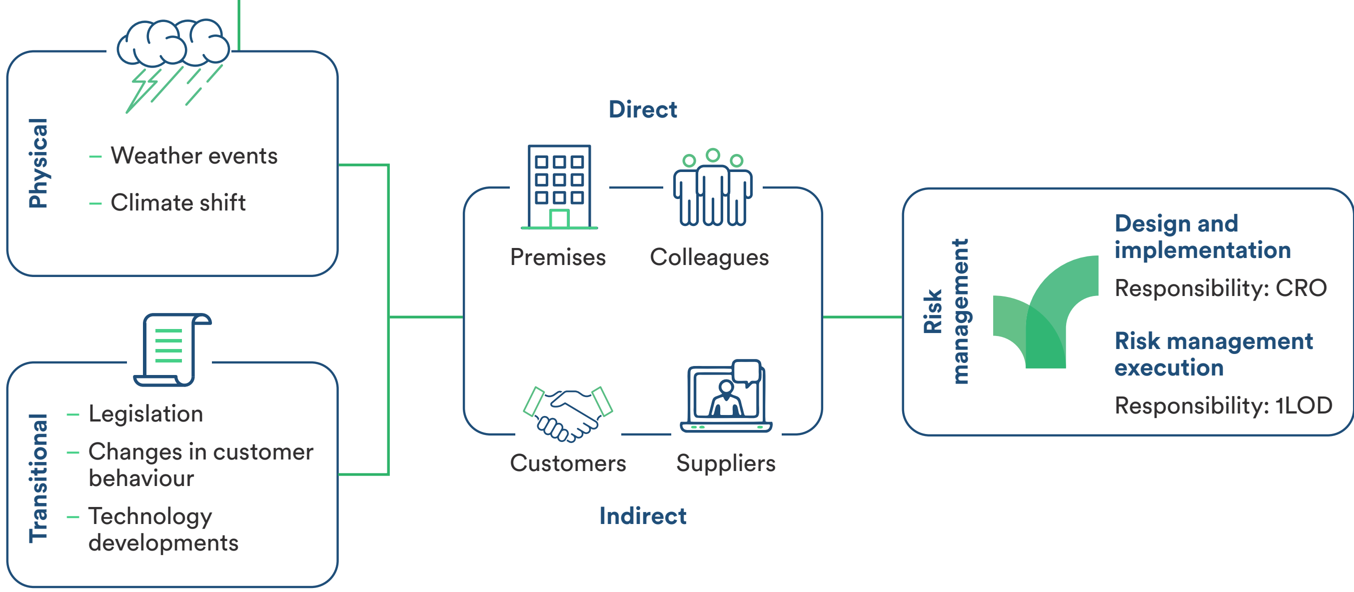
Climate Change Risks

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 Company 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 Company regularly identifies and assesses the climate-related risks it is most exposed to. The first risk identification and assessment exercise was conducted in two phases during 2021. During 2022, the Company produced its first Annual Climate Change Risk Assessment, outlining legislative changes, product innovation, internal and external risk monitoring, existing and future risk management tools – in essence an annual stocktake of the Company's climate-related risk exposures and the associated risk management approach.

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 & 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 Oversight), whilst compliance with the PRA's relevant rules and expectations is led by the Head of Prudential Risk Oversight.

Governance oversight of climate-related risks sits within the Company's existing risk committees and 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.

Compliance with Task Force for Climate-Related Financial Disclosures ('TCFD')

The Group's developing approach to managing the risks from climate change is aligned to TCFD guidance. In this part and within the "Acting Sustainably" section, the Group has made high-level disclosures consistent with the TCFD's four key disclosure areas of governance, strategy, risk management and metrics and targets. There are elements of TCFD which the Group will continue to work on with a view to full compliance with TCFD, namely with respect to modelled long-term scenario analysis as well as achieving the entire suite of Scopes 1, 2 and 3 of greenhouse gas (GHG) emissions disclosures. The short- term nature of the Group's loan book is a key natural mitigant against some of the longer dated challenges arising from climate change, such as the impact of forthcoming UK legislative bans on internal combustion engine (ICE) vehicles. Nevertheless, managing the risks of climate change and contributing to a sustainable environment are key priorities for the Group. The Group is therefore committed to continuing to make progress towards comprehensive compliance with TCFD.

Enterprise-wide key and emerging risks

Risk title
Principal Risks which are primarily impacted

Risk overview and mitigation actions

Overall risk assessment

Macro-economic risks

Credit, Prudential, Strategic

From a macroeconomic perspective, 2022 will be remembered for the worldwide central bank response to generational record-breaking levels of inflation. In the UK, the Bank of England has now raised its base rate to 4.25%, delivering a 415 basis points increase in base rate in just over a year. Despite signs of inflation cooling down in late 2022 and into 2023, the UK economy is proving more resilient than expected, with inflation remaining stubbornly high. Most forecasts do suggest inflation will decline rapidly during 2023, whereas the level of economic activity in the UK is predicted to slow down less considerably than previously feared, with most recession forecasts trimmed down in recent months.

The above scenario is muddled by uncertainty, however, particularly since the recent bout of banking distress on both sides of the Atlantic. Even assuming the recent financial sector troubles are contained, recent events are likely to have tightened wholesale credit conditions further, and will likely impact economic activity in months to come. Should the recent distress propagate further, of course, then the risks to economic activity could be exponentially greater, were a banking crisis akin to the 2008 period emerge. A more central UK scenario at the moment is one where economic activity slows down to a halt or to a shallow recessionary state at worst.

The main risk channel for DF Capital is the impact of an economic slowdown on our customers' sales activity, paired with an increase in their debt servicing costs, and the impact of inflation on their operational expenditure and cost of goods sold. Macroeconomic risks are therefore monitored very closely by the Company, as are the real economy implications on our sectors, manufacturer partners, and customers (dealers).

In summary, we remain watchful for a potential acceleration of the turn in the credit cycle and have risk management tools in place to manage its impacts. For now, despite the deterioration in macroeconomic conditions seen over the past several months, our customer base has in the most part continued to operate strongly, as evidenced by the Company's loan book performance.

As previously mentioned, the downside risks associated with a slowdown in dealer trading levels are partly offset by an upside to profitability driven by the lengthening in the duration of our loan book. This balance between topline income and cost of risk is central to the Bank's performance in the period ahead.

Risk title
Principal Risks which are primarily impacted

Risk overview and mitigation actions

Overall risk assessment

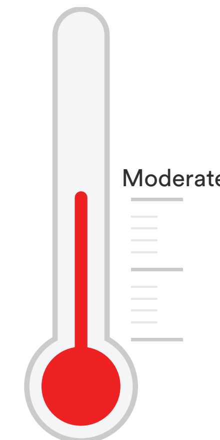
Assets sold out of trust ('SOT') & credit concentration risk

Credit, Operational

The Company 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 Company 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. Risk-based risk management means 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.



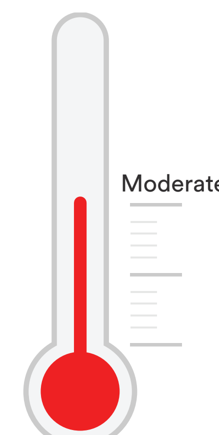
Operational execution and change

Operational, Conduct

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 Company 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.



Risk title
Principal Risks which are primarily impacted

Risk overview and mitigation actions

Overall risk assessment

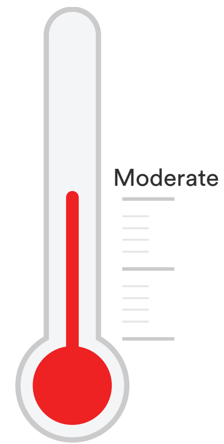
Cyber risk

Operational,
Conduct

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 also often give rise to severe reputational damage.

Information and Cyber security remains, therefore, 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.

2022 saw 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.



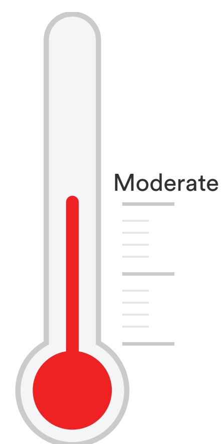
Near-term growth plan

Prudential,
Strategic

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. In addition, the market has been charaterised by intensified competition in the niche markets DF Capital operates in.

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 Company.

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 Company, 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 Company manages and hedges interest rate risk to stress scenarios in line with an agreed risk appetite.



Risk title
Principal Risks which are primarily impacted

Risk overview and mitigation actions

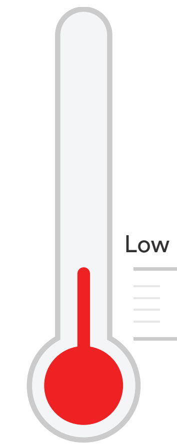
Overall risk assessment

Climate change

Credit,
Operational,
Reputational

Through its commercial lending business, the Company 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 Company 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 Company 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 Company’s risk management framework. The consideration of climate change risks within that framework is evolving at pace and the Company is continuing to develop tools 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.



Corporate Governance

Corporate Governance

Mark Stephens
Independent
Non-Executive Chair

Dear Shareholder

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

2022 has again been a transformational year for the Group and a year in which the progress made during previous years in developing and embedding our corporate governance structures and processes has continued. The Board must be firm in setting a good corporate culture and a positive 'tone from the top', yet flexible to support the group's evolving strategy and shareholder base, which we have seen in terms of Board changes over the year. In this regard, I would like to welcome both Sheryl Lawrence and Nicole Coll who have joined the Board in May 2022.

DF Capital operates as a specialised personal savings and commercial lending bank within the UK. In addition to corporate governance best practise such as the Quoted Companies Alliance Governance Code ("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 and European 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. It is the responsibility of the Board, through the executive management, to ensure that DF Capital maintains Prudential and Conduct Threshold Conditions in relation to all its regulated activities. Integral to this, the Board, through the executive management, ensures that DF Capital maintains a suitable and sustainable business model, overseeing that an appropriate balance is achieved between promoting suitable long-term growth and delivering short term objectives.

The Board is responsible for the success of DF Capital within a framework of controls which enables prudential and conduct risk to be assessed and managed. It is responsible for setting strategy and maintaining the policy and decision-making framework in which this is implemented, ensuring that the necessary financial and non-financial resources are in place to meet strategic aims, monitoring performance against key financial and non-financial indicators, overseeing the system of risk management, and for setting values and standards in governance matters.

The Board is committed to setting high standards of corporate governance and company culture, which together with support from the executive committees, drives the values, behaviours and attitudes necessary to support the group's strategy and deliver its performance. We are accountable to our shareholders and other stakeholders for the structures and management of the Group's operations to deliver against our strategic vision.

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

R A Re N

Mark is currently the Chair of the Board Risk Committee of Birmingham Bank and has over 30 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.

Principal external appointments:
Birmingham Bank Limited, Crowd Property Limited, CSBF Capital Partners Limited

Executive Directors

Carl D'Ammassa

Chief Executive Officer (CEO)

Carl has more than 25 years' experience working in commercial and SME finance, with extensive divisional managing director and CEO experience built across a number of UK based businesses. Carl previously held the position of CEO at White Oak UK, a specialist lender to SMEs. Prior to this Carl was Group Managing Director at Aldermore Bank, leading its growing business lending franchise. He spent over a decade at GE Capital, and later took roles at Hitachi Capital and Hydrex Ltd. Carl has previously been Chair and a Board 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 25 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

Company Secretary

Karen joined DF Capital in January 2023 as General Counsel and Company Secretary. Karen has spent her career advising businesses, investors and management teams on acquisitions, corporate transactions and debt advisory matters. Prior to joining the business, Karen spent the former part of her career at Addleshaw Goddard working principally on corporate restructuring including direct experience with Nationwide Building Society, 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

R A Re N

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.

Principal external appointments:
Dudley Building Society, Atrium Underwriting, Credit Suisse Asset Management UK, Charities Aid Foundation

Thomas Grathwohl

Independent
Non-Executive Director

Committees

R A Re N

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.

Principal external appointments:
Member of the Advisory Board of Camp Sunshine, a paediatric cancer support organisation.

Sheryl Lawrence

Senior Independent
Non-Executive Director

Committees

R A Re N

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.

Principal external appointments:
Morses Club PLC, RCI Bank UK Ltd, Habib Bank Zurich plc, RCI Bank UK Ltd.

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.

Principal external appointments:
Ultimovacs ASA

* 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 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.

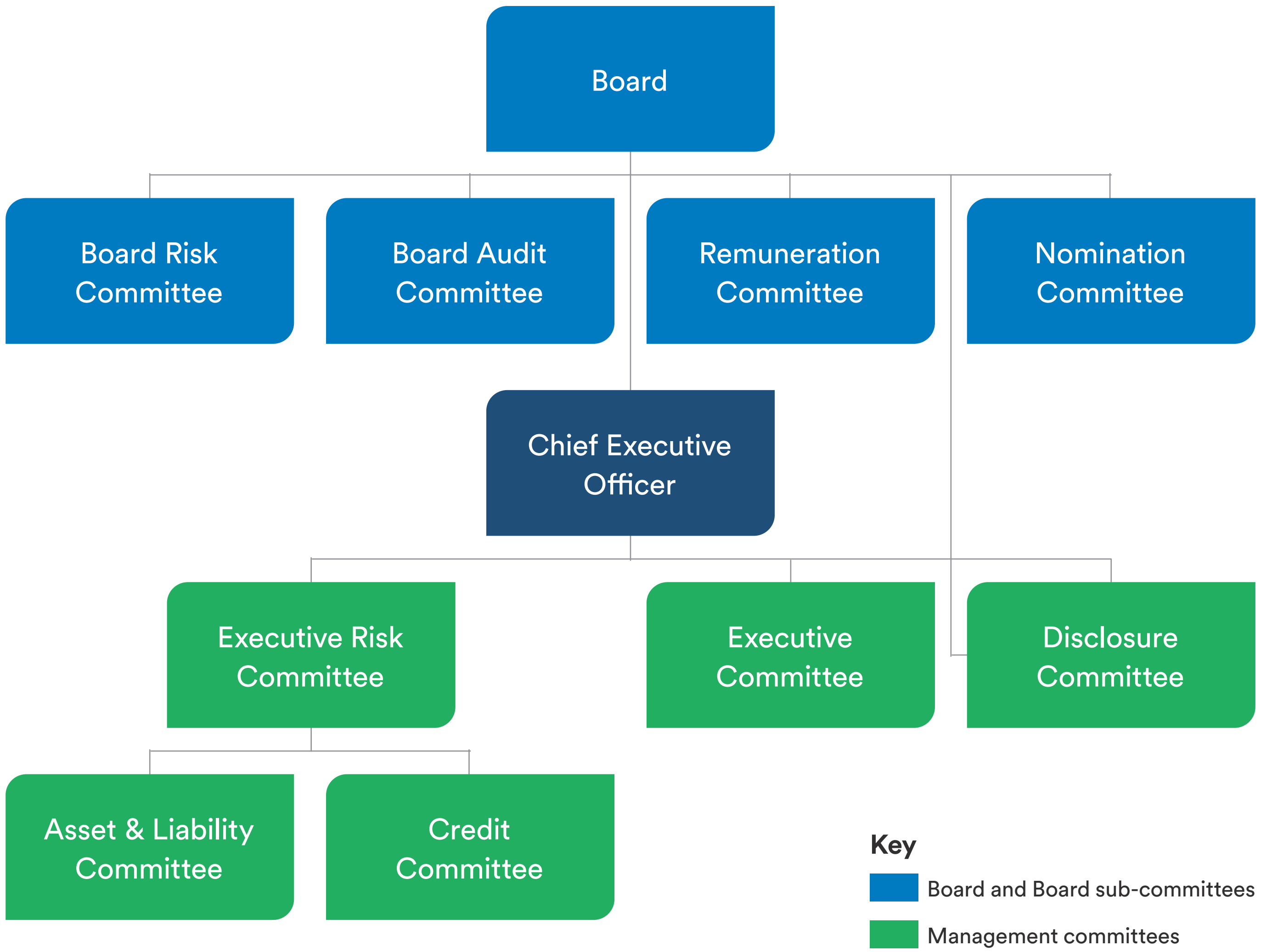
Any director wishing to do so may take independent professional advice at the expense of the Company. All directors are able to consult with the Company Secretary, who is responsible for ensuring that Board procedures are followed. The directors also have direct access to the advice and services of the 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 2022, 11 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 65.

Board balance and independence

The composition of the Board changed in 2022 following the appointment of both Nicole Coll and Sheryl Lawrence on 16 May 2022. The Board now 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 60-61.

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 79
Nomination Committee - page 82

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 86
Executive Risk Committee - page 86
Asset and Liability Committee - page 87
Credit Committee - page 88
Disclosure Committee - page 88

Attendance at meetings

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

	Board	Risk	Audit	Remuneration	Nomination
Number of standard meetings held	9	6	4	3	2
Independent Non-Executive Directors					
Mark Stephens (Chair)	9	6	4	3	1
Sheryl Lawrence	5	4	3	1	0
Nicole Coll	5	4	3	1	0
Thomas Grathwohl	9	6	4	3	2
Carole Machell	4	2	1	2	2
Non-Executive Directors					
Haakon Stenrød	9	-	-	-	-
Executive Directors					
Carl D'Ammassa	9	-	-	-	-
Gavin Morris	9	-	-	-	-

All 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.

There was 100% attendance by all board members for the above meetings. Nicole Coll and Sheryl Lawrence were appointed on 16 May 2022 so their attendance is reflected from then onwards. One of the Nomination Committee meetings was regarding Mark Stephens' appointment so he was not in attendance. Carole Machell's attendance is reflected for the period prior to her resignation as director on 15 June 2022.

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. An external review is held every three years with the next due in Q4 2023. The review looks at what is working effectively and areas that can be improved. An action plan is then put together to monitor developments.

In Q1 2023 the firm undertook an internal Board effectiveness evaluation, led by the Chair and facilitated by the Company Secretary. The report concluded that Board members have deep experience and commitment, and work in a collaborative manner with each other and executive management. Of note was the feedback that the Board fostered an environment of suitable challenge and that discussions are of high quality, robust and probing. Work done on meeting processes, timeliness of papers and general meeting administration has been noted with positive comments received generally in this area although an action point has been taken away around ensuring the level of information is appropriate to Board discussions. It is also pleasing to see positive scoring received on the effectiveness of the Chair. Given the relatively new Board composition it was also pleasing to see that the evaluation concluded that the composition and size of the Board and its committees is considered appropriate and that Board members collaborate well together. The evaluation echoed some action points discussed at the Board around ensuring the Board has the appropriate skills to support the stage of the firm's strategic growth.

The same approach will be undertaken for the sub-committees to measure their effectiveness in supporting the overall board.

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 – the 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 64, 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	Resolution
Business performance & strategy	- Financial and commercial performance - Strategic planning - Inorganic project/acquisition updates and approvals - Product Development - Operational Resilience, material outsourcing and important business services - Customer satisfaction results - Manchester office lease extension - Marketing – Brand and tone of voice
Financials	- Multi-year financial plan - ICAAP & ILAAP stress scenarios, Solvent Wind Down Plan, Resolution Pack - Statutory full year and interim results, Pillar 3 disclosures - Management representation letters - Capital planning including British Business Bank ENABLE Guarantee, Tier 2 capital consideration
Investor Relations	- Updates and investor roadshows - Appointment of Joint Broker
Governance	- Corporate Governance Framework - Board Effectiveness Review - AGM voting and arrangements - Conflicts of Interest review - Code of Conduct & Ethics - Market Abuse Regime policy - Terms of Reference
Risk Management	- Large exposures & concentration limits - Takeover training for directors - Risk appetite framework - Annual review and updates to all frameworks, policies and SOPs recommended by Board Risk Committee - 3LOD continuous improvement plan - FCA Consumer Duties planning
Technology	- Technology roadmap - Tier 1 project reviews - General Ledger supplier approval - Robotic Process Automation and Optical Character Recognition projects
People	- Best Companies survey results and action plans - Chair and INED search - Remuneration and Performance award approvals - People reports and metrics - Business-wide leadership training and development - Equality, Diversity & Inclusion - SAYE scheme - Leadership programme

Board Risk Committee Report

Sheryl Lawrence
Chair of Risk Committee

Dear Shareholder

Having joined the Board last May, I am delighted to share with you the Risk Committee Report for the year ended 31 December 2022, a year in which we have sought to navigate rapidly changing economic conditions while maintaining our focus on our strategy and growth plans.

Risk Oversight

As a young and growing bank, 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. Whilst the firm's loan book has performed exceptionally well through the pandemic and its tail effects, we believe that these are unprecedented times and continued vigilance is required in managing credit risk. Much of the discussion between Committee members and management focuses on how we can learn from where we are while remaining prepared for any deterioration in the credit risk environment impacting the Bank's loan book.

In the normal course and working with Board Audit Committee, the Committee has considered and challenged adjustments to the Group's IFRS9 impairment accounting and specific overlays relating to the immediate macro-economic impact, including high inflation and cost of living challenges.

The management of climate-related risks is another subject of regular reporting. Though relatively early in our journey, we meet present regulatory expectations and continue to evolve our approach to this important but complex area of emerging risk. 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 received the regular annual report from the Money Laundering Reporting Officer ("MLRO"), dovetailing with an Internal Audit review of financial crime, both supporting the firm's compliance with regulatory obligations and outlining areas for improvement across first line risk controls. The Committee continues to track delivery and implementation of the reports' recommendations.

The Financial Conduct Authority's ("FCA") focus on Consumer Duty has been a priority area for the Committee and accordingly we have considered how the firm will meet the FCA's requirements in this area. The Committee continues to monitor the adequacy and delivery of management's plan to implement the new requirements in H1 2023.

The BRC is chaired by the Senior Independent Non-Executive Director ("SID")

The BRC meets at least six times per year

Another key theme of regulatory interest is the firms' operational resilience. The Committee has spent extensive time understanding how we are embedding our operational resilience frameworks, policies and approach.

Managing Capital and Liquidity

Critical to running a safe and secure bank, the Committee receives reports and challenges management to ensure that the Group has adequate capital headroom to support its lending ambitions, that its liquidity requirements are effectively managed and that for both we are always working within limits imposed by the regulator. In support of this responsibility, the Committee has spent extensive time considering, reviewing and challenging the Group's Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

In considering the firm's capital requirements, BRC supported extensively the Group's application to participate in the British Business Bank's ENABLE Guarantee scheme. Having agreed terms early in January, participation in the scheme allows the firm to deliver incremental lending capacity from its existing capital base. The Committee intends to monitor the effectiveness of this scheme, whilst also considering opportunities to raise non-dilutive Tier 2 capital during 2023.

From time to time, the Group is required to consider its Recovery Plan and Solvent Wind Down Plan, working 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 BRC's oversight through the year.

BRC and the management team have an open and transparent relationship with the firm's regulators. BRC 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

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.

For a firm with 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 DF Capital's multi-year growth plan, being always mindful of the unpredictable external factors and the evolving macro-economic landscape.

For a firm of DF Capital's size, I am pleased with the level of sophistication in reporting and analysis that enables BRC to successfully discharge its duties. It is also good to see that management have an eye to the future and how both the RMF and the risk function should evolve as the firm scales further and adds increased complexity, through new products and services.

The Committee always has a full and busy schedule of topics to consider. As a newly appointed Committee Chair and Board Member, it has been pleasing to see how seriously good risk management is taken by the firm, not only amongst the management team and senior employees, but also right across the organisation. Seeing risk management in action day-to-day, alongside activities to scale the bank, gives me a high degree of confidence about our future plans to grow the firm and diversify our product range. It is undoubted that as the firm becomes more complex and scales, we need to ensure our risk frameworks, policies and structures keep pace with our growth, and help us to take the best path to achieving those ambitions.

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 management 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 and 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 Committee 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, Operational Risk Management & RCSA Frameworks, Credit Risk Framework, Model Risk Framework – Anti-bribery and Corruption, Senior Manager and Certification Regime, Gifts & Entertainment, Conflicts of Interest, Health & Safety, Anti-money Laundering, Fraud Risk policies
Risk monitoring and regulation	– Key and emerging risks – Risk metrics against risk appetite – Quarterly sector deep-dive reviews – IT and security – Regulatory engagement, horizon scanning and action tracker – FCA Consumer Duties planning
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 – Whistleblowing Policy – Share dealing and Close Period reviews
Capital, liquidity, and stress testing	– ICAAP & 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

I am delighted to join the Board of DF Capital and as Chair of Audit Committee, presenting my first Audit Committee report to you for the year ended 31 December 2022. The Committee has oversight of both internal and external audit, alongside the accounting and financial policies of the Group. Additionally, focusing on ensuring the integrity of the financial statements and any formal announcements relating to financial performance, through monitoring the effectiveness of the Group's internal control systems.

Given the macro-economic challenges of the last year, the Committee has equally spent time considering the possible economic impacts of high inflation and the war in Ukraine on the Group's business.

Internal audit

The Group's internal audit function remains outsourced to Grant Thornton LLP ("Grant Thornton"), who report directly to the Audit Committee. The Committee uses internal audit findings and reports, alongside work completed by the firm's risk oversight team, to assess the effectiveness of the Group's control framework, compliance with policies and overall approach in managing the firm's principal risks.

Having agreed the year's audit plan, the Committee received reports from Grant Thornton on their audit findings and progress updates on any relevant remediation activity and outstanding actions. The Group's audit plan, which is considered on a multi-year basis, covers a cross-section of themes and potential risk areas for the firm. In 2022, six audits were incepted by the Group:

- Cyber and information security;
- Financial promotions and marketing;
- Anti-money laundering;
- Internal capital adequacy assessment process (ICAAP);
- Senior managers and certification regime (SMCR) framework;
- Finance function organisational framework and processes.

External audit

Deloitte LLP ("Deloitte") remains the Group's external auditor. The Committee has responsibility to oversee an effective relationship with our external auditor, their independence, consider and approve the plans for the external audit, including scope, materiality, risk evaluation and other areas of audit focus, and the results of the audit.

Additionally, the Committee considers and approve the remuneration of the external auditor. The Committee agreed an increased fee for the external auditors in 2022. This increase considered new accounting standards, auditing standards, corporate governance and regulatory requirements, together with scope changes as the business has grown, together with an increase for inflation. Having assessed the level of audit fee proposed, the Committee satisfied itself that the fee of £290,000 (2021: £253,000) was appropriate relative to the audit services provided by Deloitte.

The BAC is chaired by an INED, who is also the Whistleblowing Champion

The BAC meets on at least a quarterly basis

Reporting disclosure

Considering all material subjective accounting matters is an important part of the Committee's assessment of the integrity of the Group's financial reporting, whether for the Group's interim or full year results. The Committee reviewed and challenged management's subjective judgements, based on the extensive analysis and accompanying explanation provided by the team.

The Committee also reviewed and challenged management's assessment of going concern, including consideration of the results from stress testing activities. Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

Deloitte as external auditors provide insight to the Committee, setting out their own views on and the appropriateness of the relevant accounting treatment and management's supporting analysis that underpins the financial statements of the Group.

Alongside the publication of the annual report and accounts the Group issued its annual Pillar 3 disclosures. The Committee assessed the disclosure against the relevant requirements in addition to consideration of the governance around the preparation process.

On behalf of the Board, the Audit Committee has ensured that these financial statements present a fair, balanced and understandable assessment of the Group's position and prospects.

IFRS 9 and Expected Credit Losses Provisioning

One of the firm's largest principal risks is credit risk and whilst the Group continues to build its own experience of credit losses, the Group has continued to draw on experience and external analysis from elsewhere to support its own assessment. Unsurprisingly, the Committee spends considerable time considering management's expected credit loss analysis whilst equally considering Board Risk Committee discussion where relevant. As in previous years, back testing of the modelling of probability of default ("PD") and loss given default ("LGD") was considered including challenging of the underlying assumptions. The model overlays were assessed resulting in the release of the remaining COVID-19 overlay, being replaced with a cost-of-living and associated economic uncertainties overlay. The economic stress scenarios within the IFRS9 modelling with associated probabilities were reviewed. These assumptions underpin the IFRS9 accounting approach for the year.

Deferred tax assets

The Committee considered, against the probability that future taxable profits will be available, the Group's ability to and timing of recognition of any deferred tax assets against which unused tax losses could be utilised. Consideration was given to European Securities and Markets Authority ("ESMA") guidance and the principles of IAS12- Income Taxes. The Committee's considerations included assessment of current profitability, the business multi-year forecast, expected timing of fully utilising the deferred tax asset and downside sensitivity analysis. The Committee determined that a deferred tax asset of £8.5m could be recognised for the first time as it is deemed probable that future taxable profit will be available against which unused tax losses can be utilised.

Share-based awards

As is normal practice, share-based awards were granted through the year to employees across the Group adding to the existing share-based awards already granted. Share based awards remain an important component of the Group's remuneration strategy and reward the achievement of the Group's longer term performance objectives. Given their nature, these awards can be significant and, in many cases, are dependent on the achievement of performance conditions together with an assessment of the employee's cultural behaviours. Accordingly, the determination of the value of these share-based awards, both new and existing, requires the firm to complete subjective judgements as to the outcome of future performance and awards that may be achieved. The Committee considered and approved the ongoing accounting treatment of the granted awards and the methodology used to calculate their value and the expense to be recognised. A total charge of £0.5m was made during the year and has been reflected in the Group's Statement of Comprehensive Income.

Policy Reviews

The Committee considered and approved a number of the Group's policies as part of their annual update cycle, including: external reporting, tax, IFRS9 impaired assets, substantial and related parties transactions, significant transactions and strategic projects, and accounting policies.

Whistleblowing

A key additional, and key, part of my role as Chair of Audit Committee, is to also be the firm's Whistleblowing Champion, monitoring and overseeing the Group's Whistleblowing Policy and processes. There is no better measure of an open culture than witnessing first-hand the high level of employee engagement and communication. This is further supported by results from our own conduct and culture surveys, but also the Best Companies to Work for survey, suggest the Group operates an open culture where our employees can raise concerns, without recrimination. It is important to note that with over {95%] of employees participating in the Best Companies survey we believe this is a good cultural barometer for the firm. Our employees tell us that the firm is run on sound moral principles. We review any incidents escalated by employees through their line managers, the People team or senior leaders to determine if we have areas for improvement or underlying incidents of whistleblowing.

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;
- 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 – Interim and full year audits, including going concern review – Subjective accounting considerations: including Share Based Payments, IFRS9 – loss provisioning, Deferred Tax asset – Going concern assessment – Approval of statutory audit fees and External Audit performance
Internal Audit	– 2022 and 2023 Audit Plans – Internal Audit Annual Report – ICAAP Audit – Finance Process Audit – Anti-Money Laundering Audit – Operational Resilience
Internal controls	– IFRS9 Impaired Asset and Accounting Policy – External Reporting Policy – Substantial and Related Parties Transactions Policy – Significant Transactions and Strategic Projects Policy – Tax Policy
Financial & Governance	– Pillar 3 review and disclosures – Finance organisational design – Terms of Reference review – Conduct & Culture – Whistleblowing Policy and Whistleblowing Report – Share dealing and Close Period reviews

Remuneration Committee Report

Mark Stephens
Chair of Remuneration Committee

Dear Shareholder

I am pleased to present this year's Remuneration Report, which sets out the key remuneration themes and considerations of the committee during the year ended 31 December 2022.

Having completed both executive and non-executive remuneration benchmarking last year, the work of the Committee has very much focused on embedding the principles of the Group's remuneration approach.

The Group's remuneration objective remains 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, which align to the relevant remuneration codes and policy statements of the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"), We believe that our approach to remuneration should encourage 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. Having an engaged and motivated workforce is critical to deliver the Group's strategic ambitions.

Alignment with CRV V

Following the implementation of CRD V, DF Capital was required, alongside all banks, to maintain a ratio between non-variable (fixed pay) remuneration and variable (AIP and PSP) remuneration for senior executives, other material risk takers and those meeting other regulatory thresholds of responsibility within the firm. The firm's prevailing remuneration policy allowed an AIP payment of up to one times fixed pay and an additional PSP award of up to two times fixed pay. However, under CRD V, this ratio is now limited to 1:1, except in circumstances where specific shareholder approval has been obtained to increase the ratio to 2:1.

Having updated its remuneration policy to align to the CRD V requirements, the Group sought and received shareholders' specific approval through a resolution at the 2022 Annual General Meeting to increase the ratio to 2:1. The Committee feels that the Group can now better fulfil its remuneration objectives, falling in line with common practice of similar sized banks and the recommendations of the independent benchmarking of executive remuneration completed in 2021.

Compensation & benefit construct

The Group's compensation and benefit arrangements 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); Death in Service 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;

Annual Incentive Plan ("AIP"): 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

The RemCo is chaired by an INED

The RemCo meets twice a year (and as necessary beyond that)

Performance Share Plan ("PSP"): 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.

Annual salary reviews

The impact of high inflation on our employees cost of living has been front of the Committee minds this year. In addition to our scheduled inflationary salary review in April 2022, the Group felt it appropriate to not only provide targeted support to relatively lower paid members of team, but also to provide a firm-wide discretionary salary uplift in October 2022.

Our lower paid employees received a discretionary one-off award of between £250 and £500 depending on their relative salary. Also employees typically received a [2]% increase in April and a further [2]% in October. In addition, employees who had significant changes to their role or were paid below market benchmarks, generally received adjustments to their basic salary.

Whilst the firm was striving to be profitable, Carl D'Ammassa voluntarily waived his entitlement to any cost-of-living adjustment for the years 2021 and 2022, as well as the additional firm-wide discretionary salary uplift in October 2022.

It is undoubted that high inflation continues to impact the labour markets and remain a material point of concern for our employees. Accordingly, the Group intends to offer cost of living salary increases that fall in a typical range of 5.00-6.25%. Employees who are paid below up-to-date market benchmarks are likely to receive high salary increases. The average salary review in April 2023 will be 6.25%. Carl D'Ammassa and Gavin Morris will receive 5.9% and 5.3% respectively.

Full details of executive director remuneration can be found on page 136 of the annual report.

Annual incentive plan

AIP awards are paid to employees during the first quarter following the financial year end. 2022 has been a strong year of delivery for the firm across a balanced scorecard of objectives, including:-

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

Accordingly, the Committee has determined that the majority of employees will receive a bonus award that aligns to their on-target delivery, with a small number of outstanding performers receiving an award greater than their on-target delivery.

Like all employees, the executive directors performance is measured against a balanced scorecard. The Group reaching profitability is a significant milestone and accordingly the Committee expects to reward executive directors more closely with external market salary benchmarks. In prior years, the Committee, proposed by the executive directors has adjusted awards downwards in light of the Group's continued loss-making position. On the basis of the objectives set for each of the executive directors and their relative on-target incentive payment, the Committee agreed that the following awards be made to the executive directors :-

Sharing in the Group's success

	2022				2021			
	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[2]	355,938	83.8	100	83.8	191,250	45.0	100	45.0
Gavin Morris	120,000	43.5	50	87.0	90,460	37.8	50	75.6

1. Fixed pay is defined as base salary at time of award
2. Carl D'Ammassa voluntarily agreed to cap his maximum AIP achievement at 50% in 2021

An important part of our reward for the Group's employees is for them to share in the firm's success. We believe this drives strong alignment between employees doing the right thing, doing their best and creating shareholder value.

As has been the case in 2020 and 2021, the Group has elected to make 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 450,000. Like previous all-employee share awards, these have been granted as nil-cost options and have no specific performance conditions attached to them, other than continuing employment at their three year vesting date. On announcement of these results, the Group made similar share awards in April 2023.

Through the year, 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 executive directors each received long-term incentive awards during the year. Carl D'Ammassa received 400,000 shares, with Gavin Morris receiving 200,000. Both awards have been made as nil-cost options and are subject to performance conditions anchored to 31 December 2024 expected financial outturn measured against Return on Capital, Earnings Per Share, Loan Book and Risk metrics.

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

Long term incentivisation

Having consulted with a number of shareholders and following the increase in the variable pay ratio to 2:1, the Committee believes it is important that more meaningful long term incentivisation is in place for a number of members of the management team. 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.

The Committee intends to make share awards, as nil-cost options, with an equivalent value of up to 100% of an individual's salary. These awards, which are made with both financial and objective based performance conditions, will vest in three years from the date of award and shall be anchored to 31 December 2025 expected financial outturn. The exact quantum of shares will be determined by the prevailing share price the day before the awards are granted in April 2023.

In making these awards, no employee will exceed the shareholder and regulatory set limit of the ratio of variable pay to fixed pay of 2:1. In aggregate the share awards are expected to be no greater than 5 million shares.

Future developments

We believe that our approach to remuneration is delivering the right performance outcomes. We are able to attract, motivate and retain talented employees, which is the Committee's primary objective. Naturally, whilst confident we have the right strategies in place, we will continue to closely monitor the effectiveness of our approach, make adjustments as necessary and evolve our thinking with the changing regulatory environment.

Mark Stephens
Chair of 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
Individual remuneration	- General pay and bonus reviews - Annual incentivisation - Executive remuneration and benchmarking - CRD V : Fixed to variable pay ratio - Commercial incentive schemes
Performance related	- Long-term incentivisation - PSP awards and performance conditions - Recruitment and promotion awards - Assessment of performance conditions - Save As You Earn Scheme
Organisational	- People Plan - CRO transition plan

Nomination Committee Report

Mark Stephens
Chair of Nomination Committee

Dear Shareholder,

As a small firm, DF Capital lacks some of the complexities seen in much larger firms. That being said, the Nomination Committee has an important role to play in continually assessing the composition of the Board and senior management team to ensure that we have the right skills and experience across the firm to support its strategic ambitions.

Having concluded my appointment as Chair in February 2022, the Committee's work turned to the appointment of key Board roles.

The Committee works closely with the Remuneration Committee when considering key personnel appointments.

Independent Non-Executive Director search

Following Carole Machell's decision to step down from the Board and my appointment as Chair, the Committee commenced the search for a Chair of Risk Committee and Chair of Audit Committee concurrently. The Committee engaged an external search firm to support the development of a candidate specification and ensure a diverse longlist of candidates was presented to the firm. Key to our recruitment strategy was ensuring we filled not only expertise gaps, but we considered cultural fit, as well as diversity of thought and career experiences that could better help the firm move forward at pace against its strategic objectives.

I was delighted to welcome Sheryl Lawrence as Chair of Risk Committee and Senior Independent Director, as well as Nicole Coll as Chair of Audit Committee, both joining the Board in May 2022.

Board Effectiveness Review

Since the Board's refresh following the new appointments, and having built on the areas identified for improvement in previous reviews, we have completed our annual Board Effectiveness Review. This review, completed internally by the Company Secretary with input from the Chair, required each of the Directors to submit responses to a structured questionnaire. The questionnaire covered the performance of the Board, the Director's individual performance and how the Board and the Board Committees operate. Given the material changes to the Board and Committee compositions a full comparison against last years results was not produced other than a review to ensure previous action points had been suitably addressed.

The 2022/23 Review concluded that the performance of the Board, its Committees, the Chair and each of the Directors is and continues to be effective. All Directors demonstrated commitment to their roles and contributed effectively. The Board is regarded as able, collaborative and well-run, with an open and supportive culture and strong governance relating to risks and controls. Of note was the feedback that the Board fostered an environment of suitable challenge with discussions being high quality, robust and probing supported by an engaged and effective Chair. A small number of areas for improvement were highlighted by the evaluation (mainly centred on appropriate ongoing training and format of papers) and remedial actions are underway.

Additionally, the Chair has completed 1-2-1 performance reviews with each of the firm's non-executive directors and the CEO.

The NomCo is chaired by an INED

The NomCo meets twice a year (and as necessary beyond that)

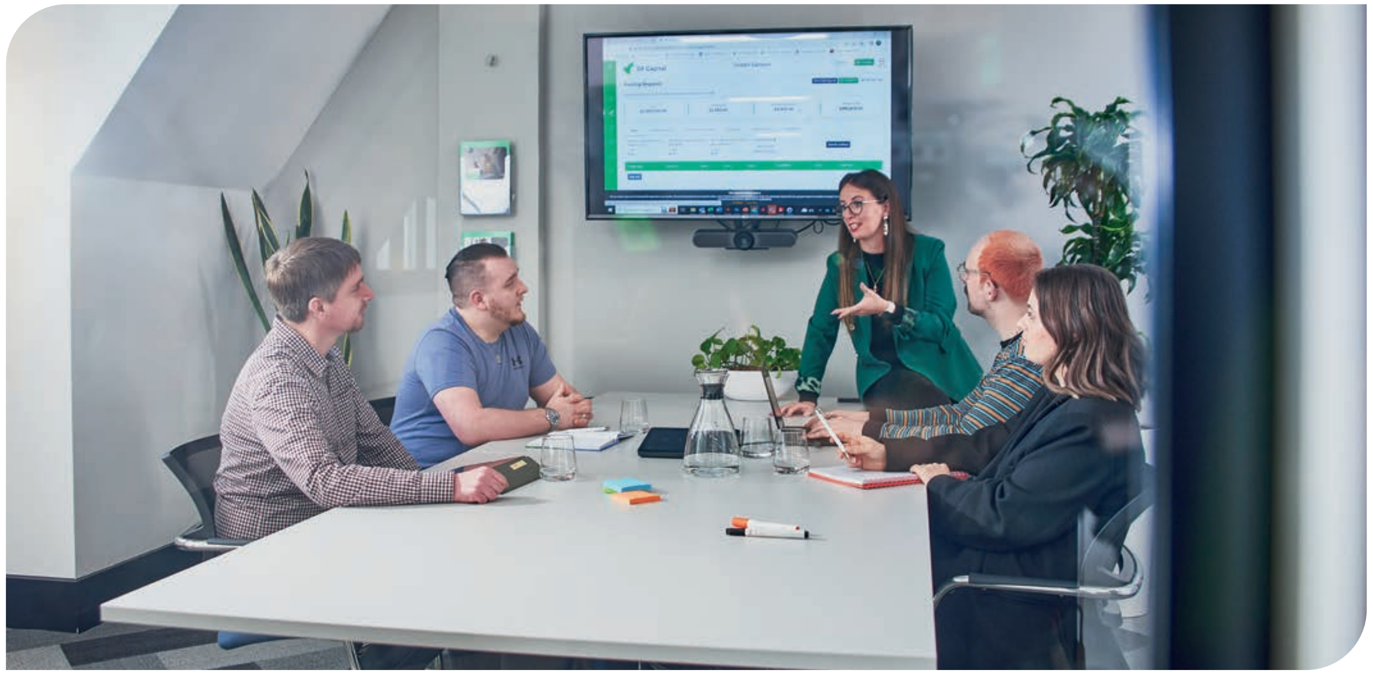
Management appointments and succession planning

The Committee supports the CEO in considering succession planning and organisation design, particularly of his senior team. During the year, the Committee had visibility and participated in the process to appoint various executive and senior appointments. The Committee works in conjunction with the Remuneration Committee in relation to management appointments.

A key priority for DF Capital is to ensure it has a diverse work force. The Committee has reviewed, as it does on an on-going basis, management's plans around Equality, Diversity and Inclusion. This is a complex area that continues to evolve. It is therefore pleasing to see the progress that has been made in this important area. Noteworthy is the Board's gender composition now being evenly split, in relation to the Independent Non-executive Directors.

DF Capital has an ambitious growth journey ahead. The Committee will continue to ensure that the Group has the right skills and expertise in place to achieve its strategic objectives and, working with the Remuneration Committee, ensure we attract and retain the best talent.

Mark Stephens
Chair of Nomination Committee



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
Recruitment	– Chair search – Independent Non-Executive Director search
Senior manager appointments	– Regulatory approval of Independent Non-executive directors – Regulatory approval for Chief Commercial Officer
Strategy, policies and governance	– Equality, Diversity and Inclusion strategy – Board effectiveness review

Senior Leadership Team

Executive Directors

Carl D'Ammassa

Chief Executive Officer (CEO)

Carl has more than 25 years' experience working in commercial and SME finance, with extensive divisional managing director and CEO experience built across a number of UK based businesses. Carl previously held the position of CEO at White Oak UK, a specialist lender to SMEs. Prior to this Carl was Group Managing Director at Aldermore Bank, leading its growing business lending franchise. He spent over a decade at GE Capital, and later took roles at Hitachi Capital and Hydrex Ltd. Carl has previously been Chair and a Board 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 25 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

Paul Atherton

Director - Operations

Paul has more than 15 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 and challenger banks during the design, implementation and growth phases. Part of the mobilisation team at OakNorth and later Head of Operations as well as 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

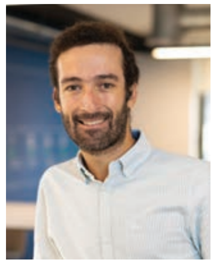
Director - Credit

Richard has over 30 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.

Charlie Michael

Chief Sustainability and People Officer (CS&PO)

Charlie has more than 20 years' financial services experience, including ten 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.



Tomas Oliveira da Silva

Chief Risk Officer (CRO)

Tomas joined DF Capital in 2019 as Head of Enterprise and Prudential Risk before taking on the position of CRO in 2021. He previously spent close to six years in banking supervision at the Bank of England (Prudential Regulation Authority), and prior to that worked as an economist at IHS Markit and the Portuguese Ministry of Economy.

Andy Stafferton

Director - Group Strategy

Andy co-founded DF Capital in 2016 and has over 20 years' of financial services and distribution finance experience. Andy is the former leader of the Global Business Development team at GE Commercial Distribution Finance ("CDF"), and held prior roles as General Manager – ANZ (CDF), European Head of Marine, Agriculture and Industrial divisions with CDF, Head of Strategy – Europe (CDF), as well as roles in Risk and Operations.

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; and
- 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. The ERC reviews and recommends the RMF for approval by the Board together with its underlying policies and procedures. The 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.

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

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

The 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. The DisCo is responsible for overseeing the disclosure of information by the Company as a listed entity.

Key responsibilities of the 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 (the "Disclosure Procedures").

The 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.

The DisCo is chaired by the CEO.

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

Beyond the Committees

The business and control functions

The role and responsibilities of key business and control functions are outlined in the sections below.

People

The People team is responsible for all employee and colleague related matters. Working with the CEO, this team is responsible for the firm's cultural and employee engagement strategies. This involves developing and implementing strategies to attract, retain, and develop talent. The team also plays a significant role in shaping the company's culture and values, ensuring that they are aligned with the overall business strategy. The function ensures all people related policies are followed and the assessment of employee performance and contribution, as well as defining the people development agenda across the firm.

The People team engaged directly with the remuneration committee in designing the firm's compensation and benefit arrangements.

Commercial

The Commercial team is responsible for managing and development of our relationships with dealers and manufacturers. Under the leadership of the Chief Commercial Officer, the function is responsible for loan origination, product development and pricing, ensuring that originated business falls in line with the firm's policies and procedures (business, risk and compliance), escalating any breaches to the second line risk function.

Operations and Information Technology

The Operations function has a broad responsibility across the firm, providing all the support function activities, which include managing the retail savings proposition, marketing, technology development and IT. The function manages day-to-day operational process, systems and controls. The function is also responsible for processing, reconciling, reviewing, and reporting any errors in transactions and recording any operational risk related issues.

Key issues such as Data Protection/ GDPR, Cyber Security measures and Business Continuity and Data Backup measures are controlled here.

Finance

The Finance function is responsible for developing and monitoring adherence to DF Capital's financial budget, maintaining financial controls and processing, analysing, and presenting financial information to the Board and committees for effective decision making. The function owns the budgeting and forecasting process and monitors and drives financial performance.

The finance function is responsible for the accurate recording of all financial and other exposures, undertaking reconciliation where appropriate and preparing required internal, external and regulatory reporting. The function is also responsible for the assessment of the adequacy of DF Capital's capital and liquidity, in accordance with established policies.

Legal and Company Secretariat activities also report to the Chief Financial Officer.

Treasury

The Treasury function is responsible for managing the assets and liabilities of DF Capital and undertaking investment activities in line with regulatory requirements and the approved risk appetite. It carries out activities related to management of liquidity and funding, interest rate risk in the banking book and liquidity stress testing. It is responsible for reviewing instruments, counterparties, and transactions from a risk perspective before taking business decisions and recording risk related data accurately. Processes related to accounting, valuation, settlement, compensation, and reconciliation of transactions are carried out with appropriate segregation of duties.

It is also responsible for the ongoing management of market and liquidity risks arising from DF Capital operations and escalating breaches in accordance with established policies and procedures.

Risk and Compliance

The Risk and Compliance function is our second line of defence (“2LOD”). It is responsible for implementing and overseeing adherence to the firm’s Risk Management Framework (“RMF”), Risk Appetite Framework (“RAF”), Compliance Framework, and all other applicable risk frameworks and policies. The 2LOD function provides independent challenge to the first line in respect of risk management as well as technical advice on risk and regulatory matters. Risk & Compliance monitor changes in regulatory and risk environment and lead the identification of emerging risks. It ensures that regulatory changes are reflected in the business and that new products are assessed from both a risk and regulatory perspective. The team also oversee adherence to AML and KYC requirements, under the Money Laundering Reporting Officer (“MLRO”) responsibilities.

Credit and Portfolio

Sitting in our first line of defence (“1LOD”), the Credit & Portfolio team is responsible for credit risk and portfolio management. This includes the credit underwriting and ongoing credit reviews of existing and prospective borrowers in line with credit risk appetite. It also includes leading in-life portfolio management activities such as carrying out asset audits and asset valuations. The team is also responsible for managing our watchlist and dealing with recoveries and workouts. The team works together with the Commercial department to design the bank’s credit strategy and monitor external market developments. It also works together with Finance on stress testing and IFRS 9 modelling of credit risk.

Internal Audit

(Independent Assurance)

The internal audit function is performed by Grant Thornton, as an external company specialising in Internal Audit services under a formal Service Level Agreement (SLA). Internal Audit is responsible for developing an annual audit plan for approval by the BAC.

It ensures appropriate emphasis on regulatory compliance and risk management, and that all aspects of the DF Capital’s operations are independently reviewed at agreed intervals. It assesses the adequacy and effectiveness of all policies and procedures.

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 2022.

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, which is presented as a standing agenda item at each meeting. 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 second consecutive year in 2022 and were proud to receive accreditation by Best Companies as an “Outstanding Place to Work” and accordingly feature in a number of the Best Companies’ league tables, with over 95% of the Group’s employees participating in the survey and giving their feedback.. 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. 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 2022, for the third 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.

Further information on key outputs in relation to our employees can be found in the Sustainability section of this report, pages 28-30.

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 +41 for 2022.

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 "Gold Trusted Service Award 2023" in light of the ratings and reviews received from its personal savings customers, together with a new feefo accreditation of an "Exceptional Service" badge for delivering "outstanding customer service". The Group now enjoys a feefo customer satisfaction rating of 4.7 out of 5.

Further information on key outputs in relation to our customers can be found in the Sustainability section of this report, pages 24-26.

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 CEO, CFO 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 25 meetings were held with existing and prospective institutional shareholders. Following his appointment, 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.

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 for participation in the British Business Bank's ENABLE Guarantee scheme

Stakeholder	Considerations
Customers	Based on the existing capital in the Group there was a ceiling of c£0.5bn of loan book size. Implementation of the ENABLE Guarantee Scheme would enable growth significantly in excess of this and combined with a later Tier 2 capital raise could support growth of the Group's loan book up to c£0.8bn without the requirement for any additional equity capital. This additional growth potential allows us to meet expected customer demand for the Group's lending products as well as 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 support from the British Business Bank. The capital efficiencies from utilising the ENABLE Guarantee Scheme would provide 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 ENABLE Guarantee Scheme application process, with a successful application being incorporated in our ICAAP and capital plan provided to the PRA.
Shareholders	Having considered the £40m capital raised from investors in February 2021 and the secondary placing of Arrowgrass's shareholding in December 2021, the Board determined that non-dilutive capital efficiency strategies should be pursued to support the firm's growth ambitions above its existing capacity of c£0.5bn. This was considered also in the context of the prevailing share price. The Board considered that utilisation of the BBB ENABLE Guarantee Scheme together with a future Tier 2 raise would enable the loan book to grow to c£0.8bn before further capital was required from investors. 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. Accordingly, the Board considered that utilising the ENABLE Guarantee Scheme would provide the required additional capital capacity to enable the next phase of the firm's strategic plan, as shared with investors. The Group keeps investors informed of all capital planning considerations at the interim and full year results presentations.

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 2022.

Details of significant subsequent events are contained in note 39 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 36 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 £9,682,000 (2021: loss £3,838,000).

The Directors do not recommend the payment of a dividend (2021: £nil).

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	(appointed 16 May 2022)
Nicole Coll	(appointed 16 May 2022)
Thomas Grathwohl	
Haakon Stenrød	
Carl D'Ammassa	
Gavin Morris	
Carole Machell	(resigned 15 June 2022)

Directors' shareholdings

As at 31 December 2022, 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 2022, 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%
Liontrust Asset Management	23,700,305	13.21%
Davidson Kempner Capital Management	17,599,990	9.81%
Lombard Odier Asset Management	13,583,408	7.57%
BlackRock Investment Management	12,650,000	7.05%
Janus Henderson Investors	8,479,379	4.73%
UBS Securities	7,616,334	4.25%
River & Mercantile Asset Management	7,096,000	3.96%
M&G Investments	5,500,000	3.07%
Allianz Global Investors	5,400,000	3.01%
CRUX Asset Management	5,391,454	3.01%

Political and charitable donations

The Group made charitable donations of £3,569 (2021: £6,933) and no political donations during the year ended 31 December 2022 (2021: £nil).

Annual General Meeting

The Company anticipates holding its Annual General Meeting in May 2023. 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 1.7 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 59-93 contains information about the Group's corporate governance arrangements.

Subsequent events

Details relating to significant events occurring between 31 December 2022 and the date of approval of the financial statements are detailed further within Note 39 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 18 April 2023 and signed on its behalf by:

……………………………………………

Carl D'Ammassa
Director

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 2022 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 and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statement;
- the consolidated related notes 1 to 39; and
- the parent company related notes 1 to 14.

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: – Loan loss provisioning. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used for the group financial statements was £3.4m which was determined on the basis of 0.8% of gross 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
Significant changes in our approach	There are no significant changes in our approach compared to the prior year.

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 made by management;
- evaluating assumptions used in management's forecasts and stress scenarios, including obtaining an understanding of relevant controls, ICAAP stress testing and expected credit losses;
- involving our prudential regulatory risk specialists, we read the most recent ICAAP and ILAAP documents, assessed the key liquidity risk drivers, management's capital and liquidity projections and the results of management's liquidity stress testing; and
- evaluating the appropriateness of disclosures in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the 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. Loan loss provisioning

Key audit matter description	As stated in note 19, the group has a total loans and advances to customers balance of £441.3m (2021: £249.5m) and associated expected credit losses ("ECL") of £3.7m (2021: £1.7m), representing 0.84% of the total loans and advances to customers balance (2021: 0.52%). As detailed in the summary of critical accounting judgements and estimates in note 3, the estimation of expected credit losses is inherently uncertain and requires significant management judgement. The key judgement in the assessment of expected credit losses under IFRS 9 is the estimation of the loss given default ("LGD") for loans originated by the group, being the estimation of sales proceeds for collateral held against these loans. As detailed in note 36, collateral is held against all of the loans and, at 31 December 2022, 99.4% of the loan portfolio was fully collateralised (2021: 99.6%). 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 and sell 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). We have, therefore, determined that the potential risk of error in or manipulation of LGD is a key audit matter.
How the scope of our audit responded to the key audit matter	We gained an understanding of the relevant controls over the calculation of ECL for loans originated by the group in accordance with IFRS 9. With the involvement of our credit risk specialists, we assessed the compliance of the modelling approach and methodology with the requirements of IFRS 9 and assessed the completeness and accuracy of post model and in model adjustments made by management in light of relevant macroeconomic factors to address risks that may not be reflected in the ECL models. We challenged management's assumptions in relation to assets sold out of trust, with reference to recent historical actual losses and for a sample of loans tested the existence and valuation of assets held as collateral. We reconciled the loan book to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate. We also evaluated the appropriateness of the financial statements disclosures. We assessed whether the underlying data feeding into management's calculations for LGDs is without manipulation, and evaluated the key judgements within the ECL calculations involving our credit modelling specialists where appropriate.
Key observations	Based on the work performed, we are satisfied that management's approach is compliant with IFRS 9 and we concluded that the loan loss provision is 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	£3.4m (2021: £2.4m)	£3.3m (2021: £2.3m)
Basis for determining materiality	0.8% of gross loans and advances to customers (2021: 1.0% of gross loans and advances to customers).	Parent company materiality is capped at 95% of group materiality. This approach is in line with prior year. We note that this equates to less than 3% of shareholders' equity of the parent.
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% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
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 £170,000 (2021: £110,000), 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% (2021: 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. 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 in the financial reporting, lending and deposits cycles. For these controls we involved our IT specialists to perform testing over the general IT controls, including testing of user access and change management systems.

In the current year we have not sought to take a control reliance approach and have therefore not relied on controls for any areas of our audit. For the areas identified above, we performed walkthroughs with management to obtain an understanding of the process and of relevant controls that address risks of material misstatement.

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 page 50.

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 respect of these matters.

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, internal audit 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, IT, financial instrument, credit risk and prudential regulatory risk 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: loan 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, Listing Rules 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 group's regulatory solvency requirements and conduct requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan 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 testing to supporting documentation 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 and 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; 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. 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
18 April 2023

Financial Statements

Consolidated Statement of Comprehensive Income

	Note	2022 £'000	2021 £'000
Interest and similar income	4	25,407	13,259
Interest and similar expenses	6	(6,411)	(2,338)
Net interest income		**18,996**	**10,921**
Fee income	7	1,348	466
Net losses on disposal of financial assets at fair value through other comprehensive income	20	(17)	(3)
Net gains from derivatives and other financial instruments at fair value through profit or loss		99	-
Other operating income/(expense)		5	(81)
Total operating income		**20,431**	**11,303**
Staff costs	8	(10,848)	(9,121)
Other operating expenses	10	(5,983)	(5,386)
Net impairment loss on financial assets	13	(2,296)	(556)
Provisions	12	-	25
Total operating profit/(loss)		**1,304**	**(3,735)**
Profit/(loss) before taxation		**1,304**	**(3,735)**
Taxation	15	8,457	59
Profit/(loss) after taxation		**9,761**	**(3,676)**

Other comprehensive loss:

Items that may subsequently be transferred to the income statement:

	Note	2022 £'000	2021 £'000
FVOCI debt securities:			
Amounts transferred to the income statement	20	17	3
Fair value movements on debt securities	20	(96)	(165)
Total other comprehensive loss for the year, net of tax		**(79)**	**(162)**
Total comprehensive income/(loss) for the year		**9,682**	**(3,838)**
Earnings per share:		**pence**	**pence**
Basic EPS	37	5	(2)
Diluted EPS	37	5	(2)

The notes on pages 114 to 180 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	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Assets:			
Cash and balances at central banks		107,353	-
Loans and advances to banks[1]	26	3,848	29,597
Debt securities	20	22,964	108,867
Derivatives held for risk management	21	57	-
Loans and advances to customers	19	435,883	247,205
Trade and other receivables[1]	23	1,524	1,074
Current taxation asset[1]	24	55	59
Deferred taxation asset	25	8,457	-
Property, plant and equipment	16	1,045	99
Right-of-use assets	17	433	641
Intangible assets	18	877	1,066
Total assets		**582,496**	**388,608**
Liabilities:			
Customer deposits	33	479,736	296,856
Derivatives held for risk management	21	42	-
Fair value adjustments on hedged liabilities	22	(84)	-
Financial liabilities	34	445	554
Trade and other payables	35	6,041	5,067
Provisions	12	77	73
Total liabilities		**486,257**	**302,550**
Equity:			
Issued share capital	29	1,793	1,793
Share premium	29	39,273	39,273
Merger relief	29	94,911	94,911
Merger reserve	31	(20,609)	(20,609)
Own shares	30	(364)	(364)
Retained loss		(18,765)	(28,946)
Total equity		**96,239**	**86,058**
Total equity and liabilities		**582,496**	**388,608**

[1] In these consolidated financial statements, the Group reclassified a number of low value balances within the statement of financial position for the year ended 31 December 2021. See note 1.4 for details of this reclassification.

The notes on pages 114 to 180 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 18 April 2023. They were signed on its behalf by:

……………………………………….

Carl D'Ammassa
Director
18 April 2023

Registered number: 11911574

Consolidated Statement of Changes in Equity

	Issued share capital £'000	Share premium £'000	Merger relief £'000	Merger reserve £'000	Own shares £'000	Retained loss £'000	Total £'000
Balance at 1 January 2021	**1,066**	**-**	**94,911**	**(20,609)**	**(364)**	**(24,115)**	**50,889**
Loss after taxation	-	-	-	-	-	(3,676)	(3,676)
Other comprehensive loss	-	-	-	-	-	(162)	(162)
Share based payments	-	-	-	-	-	362	362
Issue of new shares	727	39,273	-	-	-	(1,355)	38,645
Balance at 31 December 2021	**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)
Share based payments	-	-	-	-	-	499	499
Balance at 31 December 2022	**1,793**	**39,273**	**94,911**	**(20,609)**	**(364)**	**(18,765)**	**96,239**

The notes on pages 114 to 180 are an integral part of these consolidated financial statements.

Refer to note 29 to 31 for further details on equity movements during the periods.

Consolidated Cash Flow Statement

	Note	2022 £'000	2021 £'000
Cash flows from operating activities:			
Profit/(loss) before taxation		1,304	(3,735)
Adjustments for non-cash items and other adjustments included in the income statement	27	4,664	1,446
Increase in operating assets	27	(193,189)	(136,244)
Increase in operating liabilities	27	183,809	151,711
Taxation received	24	4	-
Net cash (used in)/generated from operating activities		**(3,408)**	**13,178**
Cash flows from investing activities:			
Purchase of debt securities	20	-	(350,980)
Proceeds from sale and maturity of debt securities	20	85,070	307,958
Interest received on debt securities	20	746	549
Purchase of property, plant and equipment	16,17	(1,041)	(253)
Purchase of intangible assets	18	(193)	(586)
Net cash generated from/(used in) investing activities		**84,582**	**(43,312)**
Cash flows from financing activities:			
Issue of new shares	29	-	38,645
Repayment of lease liabilities	32	(141)	(147)
Net cash (used in)/generated from financing activities		**(141)**	**38,498**
Net increase in cash and cash equivalents		**81,033**	**8,364**
Cash and cash equivalents at start of the year		29,597	21,233
Cash and cash equivalents at end of the year	**27**	**110,630**	**29,597**

Notes to the Consolidated 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 subsidiary, DF Capital Bank Limited (the "Bank"), 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 across the UK, 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.

1.3 Basis of consolidation

The Group accounts 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 and DF Capital Bank 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 subsidiary.

1.4 Reclassification

Taxation

During the year ended 31 December 2022, the Group recognised a deferred tax asset given as it is now reasonably probable that future taxable profits will be available to be utilised against prior taxable losses. In these consolidated financial statements, the Group has enhanced the taxation disclosure to present separately the deferred taxation asset and current taxation asset on the statement of financial position due to materiality. In the year ended 31 December 2021, a current taxation asset of £59,000 was previously recognised within 'trade and other receivables', which has been reclassified to form part of the 'current taxation asset'.

Cash and cash equivalents

During the year ended 31 December 2022, the Group began holding cash and cash equivalents with central banks, in addition to its existing cash and cash equivalent balances held with other banking institutions. These cash balances held with other banks were previously presented as 'cash and cash equivalents' within the statement of financial position.

For the year ended 31 December 2021, the Group has reclassified £29,597,000 from 'cash and cash equivalents' to 'loans and advances to banks'. The cash and cash equivalents amount held within loans and advances to banks is still reflected in the cash flow statement and other supporting notes.

1.5 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 2022

There were a number of minor amendments to financial reporting standards that are effective for the current year. There has been no material impact on the financial statements of the Group from the adoption of these financial reporting standard amendments and interpretations. The Group will comply with these from the stated effective date:

New Accounting Standard	Description of change	Effective Date	Impact on the Group
Classification of liabilities as current or non-current (IAS 1)	The 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.	01 July 2022 – 30 June 2023.	The Group presents its assets and liabilities in order of liquidity in its statement of financial position. This amendment will only affect the disclosures and the Group does not expect this amendment to have a significant impact on the annual financial statements.
Improvements to IFRS (Annual improvements 2016 – 2018)	The IASB issued the Annual improvements to IFRS standards 2016-2018 Cycle. These annual improvements include amendments to the following standards. IFRS 9 – The amendment clarifies that 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. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.	01 July 2022 – 30 June 2023.	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.

Certain amendments to accounting standards and interpretations that were not effective on 31 December 2022 have not been early adopted by the Group. The adoption of these amendments are not expected to have a material impact on the financial statements of the Group in future periods.

1.6 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.

1.7 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 (e.g. Silicon Valley Bank) and any implications for the Group. This included consideration of our deposit base which is made up entirely of retail customers of which 98% 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 and treasury bills. 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 Chairman'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.

1.8 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.

1.9 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.

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/(expense)

Other operating income/(expense) predominantly consists of UK government grant monies (including repayments of previously awarded monies) and other minor income received by the Group.

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	3 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 5 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 36 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 31 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.

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.

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.

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.

See note 9 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. All customers are currently UK-based only. As a result, the chief operating decision maker uses only one segment to control resources and assess the performance of the entity, while deciding the strategic direction of the Group.

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

2.14 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.

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:

i. 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.

In the year ended 31 December 2021, due to the COVID-19 pandemic, the Group granted payment holidays to assist its customers, whereby in these scenarios this would not be considered a significant increase in credit risk. In 2022, the Group removed all concessions to customers as the economic environment improved, therefore, any extensions or forbearance measures are again considered a trigger of stage 2 classification.

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:

i. Expected credit losses loan impairment

Probability of default ("PD")

The Group predominantly uses external credit ratings and PD models to estimate the probability of default of counterparties over the following 12-month period or expected lifetime of the exposure. These models are further supplemented by an internal credit rating system to enhance the accuracy of the PD modelling. Typical of PD modelling, these are derived from lagging indicators which are primarily derived from historical data rather than forward looking assumptions, resultantly, the Group uses external and managerial judgements to estimate how probability of defaults may change in the future.

In 2021, the Group applied a macro-economic overlay for the increased uncertainty from the COVID-19 pandemic. The Group released this overlay in the year ended 31 December 2022 to reflect the improved economic environment following the successful vaccine roll-out. In the second half of the year ended 31 December 2022, the UK began experiencing inflationary pressures and market instabilities, resultantly, the Group elected to apply a macro-economic overlay to its PD modelling to reflect this increased risk, although it has not begun materialising in observed default rates yet.

A 100% deterioration in PDs (excluding stage 3 exposures, which are already in default) would result in an additional impairment charge of £1,130,000 at 31 December 2022 (2021: £881,000).

Loss given default ("LGD")

The Group uses an internal LGD model to estimate expected losses on defaulted counterparties based on numerous characteristics of the counterparty and type of lending. These models have been developed by using observed historical loss events, identifying specific drivers of losses, and are regularly tested for accuracy and updated as necessary.

A 10% reduction in the expected discounted cashflows from the collateral held by the Group would result in an additional impairment charge of £2,389,000 (2021: £618,000).

Forward looking macroeconomic scenarios

The Group has adopted an approach which utilises four macroeconomic scenarios within its impairment modelling whereby the Group stresses PD and LGD input variables in accordance with expected macro-economic and managerial outlooks. The scenario ECL impairment allowance is weighted based on the expected probability of the scenario transpiring over the next 12-month period from the reporting date. These models are sensitive to managerial estimates over the scenarios and their associated probability weighting.

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 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	**100%**	**3,720**	**0.84%**

Scenario	Probability Weighting %	ECL Impairment £'000	ECL Coverage[1] %
31 December 2021			
Upside	15%	898	0.36%
Base	60%	1,315	0.52%
Downside	20%	2,753	1.10%
Severe Downside	5%	4,868	1.94%
Weighted	**100%**	**1,718**	**0.68%**

[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	2022 £'000	2021 £'000
Upside	(1,293)	(820)
Base	(897)	(403)
Downside	1,623	1,035
Severe Downside	5,642	3,150

ii. Deferred taxation asset

The Group has recognised a deferred tax asset in respect of future taxable profits for the first time this year. The Board has recognised the full value of the potential deferred tax asset of £8.5m at December 2022 within the Bank based on the most recently approved financial forecasts through to December 2026 with the deferred tax asset forecast to be fully utilised during 2026.

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 comfortable that these sensitivities do not impact the level of deferred tax asset to be recognised at 31 December 2022.

The Group has an unrealised deferred tax asset of £0.7m (2021; £7.3m). This unrecognised deferred tax asset as at December 2022 relates entirely to the prior taxable losses in Distribution Finance Capital Holdings plc entity.

4. Interest and similar income

	2022 £'000	2021 £'000
On loans and advances to customers	24,333	13,296
On loans and advances to banks	1,065	5
On debt securities - measured at FVOCI	9	(42)
Total interest and similar income	**25,407**	**13,259**

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. All customers are currently UK-based only. As a result, it is considered that the chief operating decision maker uses only one segment to control resources and assess the performance of the entity, while deciding the strategic direction of the Group. 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 33 and 34 for further detail of the movements in customer deposits and financial liabilities during the year.

	2022 £'000	2021 £'000
On financial liabilities not at fair value through profit or loss:		
Customer deposits	6,373	2,338
On financial liabilities at fair value through profit or loss:		
Net interest expense on financial instruments hedging liabilities	38	-
Total interest and similar expense	**6,411**	**2,338**

7. Fee income

	2022 £'000	2021 £'000
Facility-related fees	1,348	466
Total fee income	**1,348**	**466**

8. Staff costs

Analysis of staff costs:

	2022 £'000	2021 £'000
Wages and salaries	8,651	7,372
Share based payments	499	362
Contractor costs	75	24
Social security costs	1,099	921
Pension costs arising on defined contribution schemes	524	442
Total staff costs	**10,848**	**9,121**

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):

	2022 £'000	2021 £'000
Management	12	11
Finance	7	7
Credit & Risk	19	17
Sales & Marketing*	29	21
Operations*	23	23
Technology	13	11
Total average headcount	**103**	**90**

*The Group has reclassified the Client Management team from Operations to Sales & Marketing due to changes in their responsibilities and reporting structure at the Group. Client Management became part of the Commercial function during the year ended 31 December 2022, as such, prior year comparatives have been amended to retrospectively apply this reclassification for consistency. In the years ended 31 December 2022 and 31 December 2021, the Client Management team had average employees of 10 and 7 respectively.

Directors' emoluments:

	Fees/basic salary £'000	Bonuses £'000	Employer pension contributions £'000	Benefits in kind £'000	Long term incentive schemes £'000	2022 total £'000	2021 total £'000
Executive Directors:							
Carl D'Ammassa	425	356	43	7	-	831	673
Gavin Morris	266	120	26	7	-	419	370
	691	**476**	**69**	**14**	**-**	**1,250**	**1,043**
Non-executive Directors:							
Mark Stephens	150	-	-	-	-	150	150
Thomas Grathwohl	75	-	-	-	-	75	100
Nicole Coll[1]	54	-	-	-	-	54	-
Sheryl Lawrence[1]	60	-	-	-	-	60	-
Stephen Greene[2]	-	-	-	-	-	-	-
Haakon Stenrød[2]	-	-	-	-	-	-	-
Carole Machell[3]	45	-	-	-	-	45	100
John Baines[4]	-	-	-	-	-	-	133
	384	**-**	**-**	**-**	**-**	**384**	**483**
Total Director remuneration	**1,075**	**476**	**69**	**14**	**-**	**1,634**	**1,526**

[1] Nicole Coll and Sheryl Lawrence were appointed as Non-executive Directors on 16 May 2022.

[2] Stephen Greene and Haakon Stenrød hold their position as Non-Executive Directors by virtue of major shareholders (Arrowgrass Master Fund Ltd and Watrium AS, respectively) exercising their rights to appoint Directors under their Relationship Agreements. They are compensated by these respective shareholders. Stephen Greene resigned on 17 December 2021.

[3] Carole Machell resigned on 15 June 2022.

[4] John Baines resigned on 19 May 2021.

The pension for the year ended 31 December 2022 to Carl D'Ammassa and Gavin Morris of £43,000 (2021:£43,000) and £26,000 (2021:£24,000) 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 9.

Carl D'Ammassa is the highest paid Director with total remuneration of £831,000 (2021: £673,000) in the year ended 31 December 2022. Carl D'Ammassa has been awarded share options of which none have vested as at 31 December 2022 (2021: nil). Refer to note 9 for further details of these awards.

9. Share based payments

The Group has the following share options scheme for employees which have been granted and remain outstanding at 31 December 2022:

Plan	No. of options outstanding 31 December 2022	Options outstanding value 31 December 2022 £'000	Grant dates	Vesting dates	Exercise price	Performance conditions attached	Settlement method	Charge for year ended 31 December 2022 £'000
General Award 2020	222,500	68	Jun-20	Jun-23	Nil	No	Equity	16
General Award 2021	160,248	48	Jun-21	Jun-24	Nil	No	Equity	27
General Award 2022	385,511	23	May-22	May-25	Nil	No	Equity	23
Manager CSOP Award	384,298	29	Aug-20	Jun-21 Jun-22 Jun-23	40.5p	No	Equity	8
Manager PSP Award	853,334	346	Aug-20	Aug-20 Jun-21 Jun-22	Nil	No	Equity	19
CEO Recruitment Award	900,000	282	Jun-20	Jun-23	Nil	Yes	Equity	95
Senior Manager Award 2020	885,000	198	Jun-20	Jun-23	Nil	Yes	Equity	142
Senior Manager Award 2021	144,370	55	Jun-21	Sep-22 Jun-24	Nil	No	Equity	36
Senior Manager Award 2022	1,765,000	111	May-22 Sep-22	May-25 Sep-25	Nil	Yes	Equity	111
Leader & High Performer Award 2022	201,022	12	May-22	May-25	Nil	No	Equity	12
Sharesave Scheme	1,068,212	10	Jan-22 Aug-22	Jan-22 Aug-25	46.3p 30p	No	Equity	10
Total	**6,969,495**	**1,182**						**499**

All awards are equity-settled, and the shares awarded for all schemes are Distribution Finance Capital Holdings plc over 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 2022, 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 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**
Year ended 31 December 2021						
General Award 2020	320,000	-	(32,500)	-	287,500	-
General Award 2021	-	240,000	(24,000)	-	216,000	-
Manager CSOP Award	385,298	-	-	-	385,298	-
Manager PSP Award	853,334	-	-	-	853,334	377,481
CEO Recruitment Award	900,000	-	-	-	900,000	-
Senior Manager Award 2020	985,000	-	(100,000)		885,000	-
Senior Manager Award 2021	-	114,370	-		114,370	-
Total	**3,443,632**	**354,370**	**(156,500)**	**-**	**3,641,502**	**377,481**

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:

	2022			2021		
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	222,500	0.5	37.50	287,500	1.5	37.50
General Award 2021	160,248	1.4	61.00	216,000	2.4	61.00
General Award 2022	385,511	2.4	37.00	-	-	-
Manager CSOP Award	384,298	0.4	8.00	385,298	1.4	8.00
Manager PSP Award	853,334	-	40.50	853,334	0.2	40.50
CEO Recruitment Award	900,000	0.5	37.50	900,000	1.5	37.50
Senior Manager Award 2020	885,000	0.5	37.50	885,000	1.5	37.50
Senior Manager Award 2021	144,370	1.1	60.27	114,370	1.8	61.00
Senior Manager Award 2022	1,765,000	2.4	36.12	-	-	-
Leader & High Performer Award 2022	201,022	2.4	37.00	-	-	-
Sharesave Scheme	1,068,212	2.5	44.35	-	-	-
	6,969,495	**1.4**	**38.63**	**3,641,502**	**1.3**	**37.38**

The terms of the individual schemes are as follows:

General Award

In the year ended 31 December 2022, 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 will become 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.

No further awards under this scheme were granted in the years ended 31 December 2022 and 31 December 2021.

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 2021, the Group's Remuneration Committee agreed that the final performance conditions relating to 400,000 shares have been satisfied in full and the entire share award shall vest in June 2023, subject to service conditions being met.

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 2022, Senior Managers were granted additional awards based on either promotion, recruitment incentives, or performance. Performance conditions are included for 1,090,000 options of the 1,765,000 awards granted, and all awards vest over a period of 3 years subject to service conditions being met.

Leader & High Performer Award

In the year ended 31 December 2022, 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

In the year ended 31 December 2022, the Group introduced a 'Save As You Earn' scheme ('SAYE' or 'Sharesave Scheme') 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 2022, the Group has offered this scheme twice with grant dates of 1 January 2022 and 1 August 2022. 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%.

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 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**
Year ended 31 December 2021						
Carl D'Ammassa:						
General Award 2020	5,000	-	-	-	5,000	-
CEO Recruitment Award	900,000	-	-	-	900,000	-
	905,000	**-**	**-**	**-**	**905,000**	**-**
Gavin Morris:						
General Award 2020	5,000	-	-	-	5,000	-
Manager CSOP Award	74,074	-	-	-	74,074	-
Manager PSP Award	19,733	-	-	-	19,733	-
Senior Manager Award 2020	200,000	-	-	-	200,000	-
	298,807	**-**	**-**	**-**	**298,807**	**-**
Total Director awards	**1,203,807**	**-**	**-**	**-**	**1,203,807**	**-**

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 2022 for both Carl D'Ammassa and Gavin Morris. All awards are subject to service conditions being met over the vesting period.

10. Other operating expenses

	Note	2022 £'000	2021 £'000
Finance costs	11	21	19
Depreciation	16,17	318	259
Amortisation of intangible assets	18	382	314
Loss on disposal of fixed assets	16	-	3
Professional services expenses		1,831	1,858
IT-related expenses		1,862	1,688
Other operating expenses		1,569	1,245
Total other operating expenses		**5,983**	**5,386**

11. Finance costs

	2022 £'000	2021 £'000
Interest on lease liabilities	21	19
Total finance costs	**21**	**19**

12. Provisions

Analysis for movements in other provisions:

	Leasehold dilapidations £'000	Onerous supplier contracts £'000	Total £'000
Year ended 31 December 2022			
At start of year	73	-	73
Additions	-	-	-
Utilisation of provision	-	-	-
Unused amounts reversed	-	-	-
Unwinding of discount	4	-	4
At end of year	**77**	**-**	**77**
Year ended 31 December 2021			
At start of year	58	25	83
Additions	70	-	70
Utilisation of provision	(29)	(16)	(45)
Unused amounts reversed	(29)	(9)	(38)
Unwinding of discount	3	-	3
At end of year	**73**	**-**	**73**

13. Net impairment loss on financial assets

	2022 £'000	2021 £'000
Movement in impairment allowance in the year	2,028	384
Write-offs	268	173
Write-back of amounts written-off	-	(1)
Total net impairment losses on financial assets	**2,296**	**556**

See note 19 on further analysis of the movement in impairment allowances on loans and advances to customers.

Analysis of write-offs:

	Note	2022 £'000	2021 £'000
Realised losses on loan receivables	19	186	98
Realised losses on trade receivables	23	19	54
Recovery transaction costs		63	39
Bad debt VAT relief		-	(18)
Total write-offs		**268**	**173**

14. Profit/(Loss) before taxation

Profit/(Loss) before taxation is stated after charging:

	2022 £'000	2021 £'000
Depreciation of property, plant and equipment	95	105
Depreciation of right-of-use assets	223	154
Amortisation of intangible assets	382	314
Loss on disposal of property, plant and equipment	-	3
Loss on disposal of intangible assets	-	-
Allowance for credit impaired assets	2,028	384
Staff costs	10,848	9,121
Auditor's remuneration	290	253
	13,866	**10,334**

Analysis of auditor's remuneration:

	2022 £'000	2021 £'000
Audit services:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	58	50
Fees payable to the Company's auditor for the audit of its subsidiaries	177	153
Fees paid to the Company's auditors relating to prior periods	1	-
Total audit services fees	**236**	**203**
Assurance services:		
Interim review	54	50
Total assurance services fees	**54**	**50**
Total auditor's remuneration	**290**	**253**

15. Taxation

Analysis of tax charge recognised in the period:

	2022 £'000	2021 £'000
Current taxation charge/(credit):		
UK corporation tax on profit/(loss) for the current period	586	-
Adjustments in respect of prior years	-	-
SME R&D tax relief	-	(59)
Total taxation charge/(credit)	**586**	**(59)**
Deferred taxation (credit)/charge:		
Current year	(9,043)	-
Adjustments in respect of prior years	-	-
Total deferred taxation (credit)/charge	**(9,043)**	**-**
Total taxation (credit)/charge	**(8,457)**	**(59)**

Reconciliation of profit/(loss) before taxation to total tax credit recognised:

	2022 £'000	2021 £'000
Profit/(Loss) on ordinary activities before taxation	1,304	(3,735)
Taxation on profit/(loss) on ordinary activities at standard corporation tax rate of 19% (2021:19%)	248	(710)
Effects of:		
Disallowable expenses	118	50
Other short-term timing differences for which no deferred tax asset has been recognised	1	50
Current year losses for which no deferred tax asset has been recognised	219	610
Recognition of deferred taxation asset	(9,043)	-
Total tax (credit)/charge	**(8,457)**	**-**

Current tax on profits reflects UK corporation tax levied at a rate of 19% for the year ended 31 December 2022 (31 December 2021: 19%) and the banking surcharge levied at a rate of 8% on the profits of banking companies chargeable to corporation tax after an allowance of £25 million 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 17 October 2022, the Chancellor of the Exchequer confirmed that the UK corporation tax rate will increase to 25% from 1 April 2023. On 17 November 2022 it was confirmed that the previously enacted reduction in Banking Surcharge to 3%, with an allowance of £100m, would proceed, also from 1 April 2023. These enacted tax rates have been used to determine the deferred tax balances at 31 December 2022.

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 2022, the Group has an estimated unrecognised deferred tax asset of £0.7m (31 December 2021: £7.3m) from prior taxable losses.

In the year ended 31 December 2022, the Group has recognised a deferred tax asset in respect of future taxable profits. Further detail on the deferred tax is provided in note 25.

16. Property, plant and equipment

	Leasehold Improvements £'000	Furniture, Fixtures & Fittings £'000	Computer Hardware £'000	Telephony & Communications £'000	Motor Vehicles £'000	Total £'000
Cost:						
As at 1 January 2021	**26**	**137**	**247**	**6**	**-**	**416**
Additions	10	24	34	-	-	68
Disposals and write offs	(3)	(9)	(5)	-	-	(17)
As at 31 December 2021	**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**
Accumulated depreciation:						
As at 1 January 2021	**20**	**99**	**152**	**6**	**-**	**277**
Charge for the year	6	34	65	-	-	105
Disposals and write offs	(2)	(9)	(3)	-	-	(14)
As at 31 December 2021	**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**
Carrying amount:						
At 31 December 2021	9	28	62	-	-	99
At 31 December 2022	**5**	**12**	**90**	**-**	**938**	**1,045**

In the year ended 31 December 2022, the Group wrote off fully depreciated assets of £361,000. During the year ended 31 December 2021, the Group wrote off £17,000 of assets with a disposal value of £3,000.

17. Right-of-use assets

	Buildings £'000
Cost:	
As at 1 January 2021	**407**
Additions	789
Disposals and write offs	-
Lease modifications	(58)
As at 31 December 2021	**1,138**
Additions	4
Disposals and write offs	-
Lease modifications	11
As at 31 December 2022	**1,153**
Accumulated depreciation:	
At 1 January 2021	**343**
Charge for the year	154
Disposals and write offs	-
At 31 December 2021	**497**
Charge for the year	223
Disposals and write offs	-
At 31 December 2022	**720**
Carrying amount:	
At 31 December 2021	641
At 31 December 2022	**433**

During the year ended 31 December 2022, the Group is 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.

During the year ended 31 December 2022, a lease modification of £11,000 was recognised due changes in rental payments due to inflationary price increases and an extension of 1-month for the Group's London Office, for which the lease agreement terminated on 31 January 2023.

The maturity analysis of lease liabilities is presented in note 32.

Amounts recognised in the income statement:

	2022 £'000	2021 £'000
Depreciation expense on right-of-use assets	223	154
Interest expense on lease liabilities	21	19
Expense relating to short-term leases	44	-
Expense relating to leases of low value assets	6	6
Expenses relating to variable lease payments not included in measurement of lease liability	90	92
Total amounts recognised in the income statement	**384**	**271**

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:

	2022 £'000	2021 £'000
Buildings:		
Fixed payments	141	147
Variable payments	98	73
Total lease payments	**239**	**220**

18. Intangible assets

	Computer Software £'000
Cost:	
At 1 January 2021	**1,189**
Additions from internal development	280
Additions from separate acquisitions	306
Disposals and write offs	-
At 31 December 2021	**1,775**
Additions from internal development	193
Additions from separate acquisitions	-
Disposals and write offs	(27)
At 31 December 2022	**1,941**
Accumulated amortisation:	
At 1 January 2021	**395**
Charge for the year	314
Disposals and write offs	-
At 31 December 2021	**709**
Charge for the year	382
Disposals and write offs	(27)
At 31 December 2022	**1,064**
Carrying amount:	
At 31 December 2021	1,066
At 31 December 2022	**877**

In the year ended 31 December 2022, the Group capitalised £172,000 (2021: £152,000) of consultancy costs, £nil of third-party purchased software (2021: £35,000) and £21,000 (2021: £93,000) 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 2022 and concluded an impairment of £nil (2021: £nil).

In the year ended 31 December 2022, the Group wrote off fully depreciated intangible assets of £27,000 (2021: £Nil).

19. Loans and advances to customers

	2022 £'000	2021 £'000
Gross carrying amount	441,284	249,454
Less: impairment allowance	(3,720)	(1,718)
Less: effective interest rate adjustment	(1,681)	(531)
Total loans and advances to customers	**435,883**	**247,205**

Refer to note 36 for details on the expected maturity analysis of the gross loans receivable balance.
Refer to note 13 and 36 for further details on the impairment losses recognised in the periods.

Ageing analysis of gross loan receivables:

	2022 £'000	2021 £'000
Not in default:		
Not yet past due	422,845	247,974
Past due: 1 - 30 days	136	105
Past due: 31 - 60 days	1,074	834
Past due: 61 - 90 days	25	-
Past due: 90+ days	-	-
	424,080	**248,913**
Defaulted:		
Not yet past due and past due 1 - 90 days	11,319	377
Past due 90+ days	5,885	164
	17,204	**541**
Total gross loan receivables	**441,284**	**249,454**

Analysis of gross loans and advances to customers:

	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 receivable	**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%**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2021	**103,823**	**8,726**	**710**	**113,259**
Transfer to Stage 1	2,038	(2,038)	-	-
Transfer to Stage 2	(19,388)	19,388	-	-
Transfer to Stage 3	(134)	(569)	703	-
Net lending/(repayment)	152,993	(15,922)	(778)	136,293
Write-offs	(5)	-	(93)	(98)
Total movement in gross receivable	**135,504**	**859**	**(168)**	**136,195**
As at 31 December 2021	**239,327**	**9,585**	**542**	**249,454**
Loss allowance coverage at 31 December 2021	**0.48%**	**1.62%**	**77.68%**	**0.69%**

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 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**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2021	**645**	**49**	**594**	**1,288**
Transfer to Stage 1	20	(20)	-	-
Transfer to Stage 2	(139)	139	-	-
Transfer to Stage 3	-	(1)	1	-
Remeasurement of impairment allowance	(13)	93	77	157
Net lending/(repayment)	629	(105)	(175)	349
Write-offs	-	-	(76)	(76)
Total movement in loss allowance	**497**	**106**	**(173)**	**430**
As at 31 December 2021	**1,142**	**155**	**421**	**1,718**

20. Debt securities

	2022 £'000	2021 £'000
FVOCI debt securities:		
Treasury bills	-	53,085
UK government gilts	22,964	55,782
Total FVOCI debt securities	**22,964**	**108,867**
Analysis of movements during the year:		
At 1 January	**108,867**	**66,601**
Purchased debt securities	-	350,980
Proceeds from sold or maturing securities	(85,070)	(307,955)
Coupons received	(746)	(549)
Interest income	9	(42)
Realised gains/losses	(17)	(3)
Unrealised losses	(96)	(165)
Amounts transferred to the income statement	17	-
At 31 December	**22,964**	**108,867**
Maturity profile of debt securities:		
Within 12 months	22,964	24,602
Over 12 months	-	84,265

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 36 for details of the maturity profile of these securities.

21. 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 2022				
Derivative assets:				
Interest rate risk hedging	57	57	(28)	29
Derivative liabilities:				
Interest rate risk hedging	(42)	(42)	98	56

In the year ended 31 December 2021, the Group entered into an International Swaps and Derivatives Association (ISDA) agreement with a broker to enable the Group to transact in derivative instruments for managing interest rate risk. However, no swap agreements were executed until 2022, resultantly, there is no comparatives presented for the year ended 31 December 2021.

All derivative instruments which have been entered into are transacted against SONIA.

Derivative assets and liabilities include a variation margin of £70,000 with swap counterparties. Further, the Group holds £500,000 of independent collateral with banks for the swap facility, which is not included within the above table. See note 26 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 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 6 (2021: Nil) derivative contracts with an average fixed rate of 4.21% (2021: n.a).

22. Hedge Accounting

	2022 £'000	2021 £'000
Hedged liabilities:		
Current hedge relationships	(77)	-
Swap inception adjustment	(7)	-
Fair value adjustments on hedged liabilities	**(84)**	**-**

As at the year ended 31 December 2022, the Group presently only hedges liabilities in the form of its customer deposits. The Group does not hedge its loans and advances to customers given these assets are expected to reprice within a short time frame. Refer to note 36 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 retail deposits.

At present, the Group expects its hedging relationships to be highly effective as the Group hedges fixed term deposit accounts for which the fair value movements between the hedged item and hedging instrument are expected to be highly correlated. Further, the Group does not anticipate having to rebalance the relationship once entered into due to the contractual terms of the fixed term deposits with depositors. In the year ended 31 December 2022, 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:

	2022		2021	
	Hedged item £'000	Hedging instrument £'000	Hedged item £'000	Hedging instrument £'000
Customer deposits:				
Carrying amount of hedged item/ nominal value of hedging instrument	90,505	90,000	-	-
Cumulative fair value adjustments	(84)	-	-	-
Fair value adjustments for the period	(84)	-	-	-

In the Consolidated Statement of Financial Position, £57,000 (2021: £nil) of hedging instruments were recognised within derivative assets; and £42,000 (2021: £nil) within derivative liabilities.

23. Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	850	355
Impairment allowance	(101)	(75)
	749	**280**
Other debtors	273	278
Accrued Income	94	192
Prepayments	408	324
	775	**794**
Total trade and other receivables	**1,524**	**1,074**

All trade receivables are due within one year, refer to note 36 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:

	2022 £'000	2021 £'000
Not in default:		
Not yet past due	563	276
Past due: 1 - 30 days	27	7
Past due: 31 - 60 days	2	1
Past due: 61 - 90 days	-	-
Past due: 90+ days	-	-
	592	**284**
Defaulted:		
Not yet past due and past due 1 - 90 days	194	10
Past due 90+ days	64	61
	258	**71**
Total gross trade receivables	**850**	**355**

Analysis of movement of impairment losses on trade receivables:

	2022 £'000	2021 £'000
Balance at 1 January	**75**	**121**
Amounts written off	(19)	(26)
Amounts recovered	-	-
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	45	(20)
Balance at 31 December	**101**	**75**

24. Current taxation asset

	2022 £'000	2021 £'000
At 1 January	59	-
(Charge)/credit to profit and loss account	(586)	59
Repayments	4	-
Adjustments in respect of prior years		-
Utilisation of deferred taxation asset	586	-
At 31 December	**55**	**59**

As detailed in note 1.4 of these consolidated financial statements, the Group elected to reclassify a taxation asset of £59,000 in the year ended 31 December 2021 from trade and other receivables into current taxation asset within the statement of financial position.

Refer to note 25 for further details of the deferred taxation asset.

25. 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:

	2022 £'000	2021 £'000
At 1 January	-	-
Credit/(charge) to profit and loss account	8,457	-
Adjustments in respect of prior years	-	-
At 31 December	**8,457**	**-**

See below for an analysis of the deferred taxation asset balance:

	2022 £'000	2021 £'000
Losses	8,730	-
Short term timing differences	8	-
Fixed assets	(281)	-
Deferred taxation asset	**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 (2021:£7.3m) which is not expected to be utilised for the foreseeable future.

On 17 October 2022, the Chancellor of the Exchequer confirmed that the UK corporation tax rate will increase to 25% from 1 April 2023. On 17 November 2022 it was confirmed that the previously enacted reduction in Banking Surcharge to 3%, with an allowance of £100m, would proceed, also from 1 April 2023. These enacted tax rates have been used to determine the deferred tax balances at 31 December 2022.

26. Loans and advances to banks

	2022 £'000	2021 £'000
Included in cash and cash equivalents: balances with less than three months to maturity at inception	3,277	29,597
Cash collateral on derivatives placed with banks	571	-
Total loans and advances to banks	**3,848**	**29,597**

As detailed in note 1.4 of these consolidated financial statements, the Group elected to reclassify cash and cash equivalents of £29,597,000 in the year ended 31 December 2021 from cash and cash equivalents into loans and advances to banks within the statement of financial position. This change is prompted by the Group having cash and balances at central banks.

The cash and cash equivalents balances are included in the consolidated cash flow statement as detailed further in note 27.

In the year ended 31 December 2022, the Group began transacting in derivative instruments to manage interest rate risk for which the cash collateral on derivatives placed with banks solely relates to. The cash collateral on derivatives placed with banks is recognised on a net basis. Refer to note 21 for further details on derivative instruments.

27. 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:

	2022 £'000	2021 £'000
Cash and balances at central banks	107,353	-
Loans and advances to banks	3,277	29,597
Total cash and cash equivalents	**110,630**	**29,597**

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

	Note	2022 £'000	2021 £'000
Depreciation of property, plant and equipment	16	95	105
Depreciation of right-of-use assets	17	223	154
Loss on disposal of property, plant and equipment	16	-	3
Amortisation of intangible assets	18	382	314
Loss on disposal of intangible assets	18	-	-
Share based payments	9	499	362
Impairment allowances on receivables	13	2,296	556
Movement in other provisions	12	4	(10)
Interest income on debt securities	20	(9)	42
Finance costs	11	21	19
Unwind of discount	12	4	3
Interest in suspense		1,149	(102)
Total non-cash items and other adjustments		**4,664**	**1,446**

Net change in operating assets:

	2022 £'000	2021 £'000
Increase in loans and advances to customers	(190,709)	(136,202)
Derivative financial instruments	(57)	-
Increase in other assets	(2,423)	(42)
Increase in operating assets	**(193,189)**	**(136,244)**

Net change in operating liabilities:

	2022 £'000	2021 £'000
Increase in customer deposits	182,879	150,874
Derivative financial instruments	42	-
Fair value adjustments for portfolio hedged risk	(84)	-
Increase in other liabilities	972	837
Repayment of financial liabilities		-
Increase in operating liabilities	**183,809**	**151,711**

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.

	2022		2021	
	Lease liabilities (see note 32) £'000	Total £'000	Lease liabilities (see note 32) £'000	Total £'000
At 1 January	**504**	**504**	**57**	**57**
Financing cash flows:				
Interest payments	(141)	(141)	(147)	(147)
Non-cash movements:				
Recognition of lease liabilities	-	-	604	604
Interest expense on lease liabilities	21	21	19	19
Lease modification	11	11	(29)	(29)
At 31 December 2022	**395**	**395**	**504**	**504**

28. 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

During the year ended 31 December 2022, there were no changes to the ownership of subsidiaries of the Group (2021: none).

29. Equity

	2022 No.	2021 No.	2022 £'000	2021 £'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:

	Date	No. of shares #	Issue Price £	Share Capital	Share Premium £'000	Merger Relief £'000	Total £'000
At 1 January 2021		**106,641,926**		**1,066**	**-**	**94,911**	**95,977**
Issue of new shares	22-Feb-21	72,727,273	0.55	727	39,273	-	40,000
At 31 December 2021		**179,369,199**		**1,793**	**39,273**	**94,911**	**135,977**
No movements in the year							
At 31 December 2022		**179,369,199**		**1,793**	**39,273**	**94,911**	**135,977**

30. Own shares

At 31 December 2022 the Group's Employee Benefit Trust held 2,963,283 (2021: 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 2022 was £992,700 (2021: £1,452,009).

	2022 £'000	2021 £'000
At 1 January	**(364)**	**(364)**
Employee Benefit Trust	-	-
At 31 December	**(364)**	**(364)**

31. Merger reserve

There were no movements relating to the merger reserve account during years ended 31 December 2022 and 31 December 2021.

32. Lease liabilities

	2022 £'000	2021 £'000
At 1 January	**504**	**57**
Initial recognition	-	604
Interest expense	21	19
Interest payments	(141)	(147)
Lease modification	11	(29)
At 31 December	**395**	**504**

During the year ended 31 December 2022, a lease modification of £11,000 was recognised due changes in rental payments due to inflationary price increases and an extension of 1-month for the Group's London Office, for which the lease agreement terminated on 31 January 2023.

The fair value of the Group's lease obligations as at 31 December 2021 is estimated to be £394,681 (2021: £503,816) using a 5% discount rate. The 5% 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:

	2022 £'000	2021 £'000
Analysed as:		
Non-current	145	109
Current	250	395
	395	**504**
Maturity analysis:		
Year 1	162	131
Year 2	184	161
Year 3	79	184
Year 4	-	79
Year 5	-	-
Onwards	-	-
	425	**555**
Less: unearned interest	(30)	(51)
Total lease liabilities	**395**	**504**

33. Customer deposits

	2022 £'000	2021 £'000
Retail deposits	479,736	296,856
Total customer deposits	**479,736**	**296,856**
Amounts repayable within one year	364,674	249,930
Amounts repayable after one year	115,062	46,926
	479,736	**296,856**

Refer to note 36 for the maturity profile of the customer deposit balances.

34. Financial liabilities

	2022 £'000	2021 £'000
Lease liabilities	395	504
Preference Shares	50	50
Total financial liabilities	**445**	**554**

Lease liabilities:

See note 32 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:

	2022 £'000	2021 £'000
Current liabilities	145	109
Non-current liabilities	300	445
Total financial liabilities	**445**	**554**

Reconciliation of movement in financial liabilities:

	Preference shares £'000	Lease liabilities £'000	Total £'000
Balance at 1 January 2021	**50**	**57**	**107**
Financing cash flows:			
Repayment of lease liabilities	-	(147)	(147)
	-	**(147)**	**(147)**
Non-cash movements:			
Additions	-	604	604
Interest expense	-	19	19
Lease modifications	-	(29)	(29)
	-	**594**	**594**
Balance at 31 December 2021	**50**	**504**	**554**
Financing cash flows:			
Repayment of lease liabilities	-	(141)	(141)
	-	**(141)**	**(141)**
Non-cash movements:			
Interest expense	-	21	21
Lease modifications	-	11	11
	-	**32**	**32**
Balance at 31 December 2022	**50**	**395**	**445**

35. Trade and other payables

	2022 £'000	2021 £'000
Current liabilities:		
Trade payables	218	282
Social security and other taxes	360	275
Other creditors	2,993	2,422
Accruals	2,446	2,032
Total current liabilities	**6,017**	**5,010**
Non-current liabilities:		
Social security and other taxes	24	57
Total non-current liabilities	**24**	**57**
Total trade and other payables	**6,041**	**5,067**

36. 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 34) and equity (comprising issued capital, merger relief, reserves, own shares and retained earnings – see notes 29 to 31).

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:

	2022 £'000	2021 £'000
CET1 capital: instruments and reserves		
Called up share capital	1,793	1,793
Share premium accounts	39,273	39,273
Retained earnings account	(18,706)	(28,946)
Accumulated other comprehensive income & other reserves	73,858	73,939
CET1 capital before regulatory adjustments	**96,218**	**86,059**
CET1 capital: regulatory adjustments		
Intangible assets	(877)	(1,066)
Investment in own shares	(2,303)	(2,303)
Prudent valuation adjustment	(1,327)	-
Deferred tax asset	(8,457)	-
CET1 capital	**83,254**	**82,690**
T1 capital	**83,254**	**82,690**
Total regulatory capital	**83,254**	**82,690**

The return on assets of the Group (calculated as profit/loss after taxation divided by average total assets) was 2.2% (2021: -1%).

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;
- Trade receivables, primarily credit risk and liquidity risk;
- Trade and other payables, primarily credit risk and liquidity risk;
- Customer deposits, primarily interest rate 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:

	Amortised cost £'000	Fair value through other comprehensive income £'000	Fair value through profit or loss £'000	Total £'000
31 December 2022				
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**

31 December 2022				
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**

	Amortised cost £'000	Fair value through other comprehensive income £'000	Fair value through profit or loss £'000	Total £'000
31 December 2021				
Financial assets:				
Loans and advances to banks	29,597	-	-	29,597
Debt securities	-	108,867	-	108,867
Loans and advances to customers	247,205	-	-	247,205
Trade receivables	280	-	-	280
Other receivables	337	-	-	337
Total financial assets	**277,419**	**108,867**	**-**	**386,286**

31 December 2021				
Financial liabilities:				
Customer deposits	296,856	-	-	296,856
Other financial liabilities	504	-	-	504
Trade payables	282	-	-	282
Other payables	2,753	-	-	2,753
Preference shares	50	-	-	50
Total financial liabilities	**300,445**	**-**	**-**	**300,445**

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 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**

31 December 2021	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	29,597	29,597	29,597	-	-
Loans and advances to customers	247,205	247,205	-	-	247,205
Trade receivables	280	280	-	-	280
Other receivables	337	337	-	-	337
	277,419	**277,419**	**29,597**	**-**	**247,822**

31 December 2021					
Financial liabilities not measured at fair value:					
Preference shares	50	50	-	-	50
Customer deposits	296,856	296,856	-	-	296,856
Other financial liabilities	504	504	-	-	504
Trade payables	282	282	-	-	282
Other payables	2,753	2,753	-	-	2,753
	300,445	**300,445**	**-**	**-**	**300,445**

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).

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

Cash and balances at central banks

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

Loans and advances to banks

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

Loans and advances to customers

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

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 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**	**-**
31 December 2021					
Financial assets measured at fair value:					
Debt securities	108,867	108,085	108,867	-	-
	108,867	**108,085**	**108,867**	**-**	**-**

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, 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 2022:

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:

	2022 £'000	2021 £'000
Loans and advances to banks	3,848	29,597
Derivative assets	57	-
Loans and advances to customers	435,883	247,205
Trade and other receivables	1,022	617
	440,810	**277,419**

Collateral held as security:

	2022 £'000	2021 £'000
Fully collateralised:		
Loan-to-value* ratio:		
Less than 50%	2,798	1,698
51% to 70%	36,764	13,106
71% to 80%	63,239	29,724
81% to 90%	69,499	29,302
91% to 100%	264,118	175,125
	436,418	**248,955**
Partially collateralised (loans over 100% loan-to-value)	-	-
Unsecured lending	**4,866**	**499**

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

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

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

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

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

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

Concentration of credit risk

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

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:

31 December 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2022 Total £'000
Credit rating:				
Above average (Risk rating 1-2)	267,000	6,629	-	273,629
Average (Risk rating 3-5)	110,818	5,433	14,757	131,008
Below average (Risk rating 6+)	32,938	1,261	2,448	36,647
Gross carrying amount	**410,756**	**13,323**	**17,205**	**441,284**
Loss allowance	(1,943)	(84)	(1,693)	(3,720)
Carrying amount	**408,813**	**13,239**	**15,512**	**437,564**

31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2021 Total £'000
Credit rating:				
Above average (Risk rating 1-2)	142,119	-	-	142,119
Average (Risk rating 3-5)	77,286	8,758	-	86,044
Below average (Risk rating 6+)	19,922	827	542	21,291
Gross carrying amount	**239,327**	**9,585**	**542**	**249,454**
Loss allowance	(1,142)	(155)	(421)	(1,718)
Carrying amount	**238,185**	**9,430**	**121**	**247,736**

See note 19 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:

	2022 £'000	2021 £'000
Status at balance sheet date:		
Not past due, nor impaired	563	276
Past due but not impaired	29	8
Impaired	258	71
Total gross carrying amount	**850**	**355**
Loss allowance	(101)	(75)
Carrying amount	**749**	**280**

See note 23 for analysis of the movements in gross trade receivables and impairment allowances in terms of IFRS 9 staging.

Amounts written off

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £nil at 31 December 2022 (31 December 2021: £49,000).

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 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**

31 December 2021	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
Loans and advances to banks	29,597	29,597	29,597	-	-	-	-
Loans and advances to customers	247,205	249,240	24,953	56,140	128,226	39,921	-
Debt securities	108,867	108,085	24,600	38,000	22,485	23,000	-
Trade receivables	280	355	355	-	-	-	-
Other receivables	337	337	9	59	9	260	-
	386,286	**387,614**	**79,514**	**94,199**	**150,720**	**63,181**	**-**

Maturity analysis for financial liabilities

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

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**	**-**	**-**	**-**	**-**

31 December 2021	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	296,856	299,371	4,684	29,798	217,159	47,730	-
Other financial liabilities	504	555	4	31	96	424	-
Trade payables	282	282	282	-	-	-	-
Other payables	2,753	2,864	2,666	-	35	163	-
Preference shares	50	50	-	-	-	50	-
	300,445	**303,122**	**7,636**	**29,829**	**217,290**	**48,367**	**-**
Loan commitments	**-**	**3,892**	**3,892**	**-**	**-**	**-**	**-**

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. Additionally, during 2022 interest rate swap lines were incepted which allow the Bank to use interest rate swaps as a further mitigation tool for interest rate risk.

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:

	2022 £'000	2021 £'000
Change in interest rate (basis points)		
Sensitivity of EVE +200bps	658	15
Sensitivity of EVE -200bps	(681)	6

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:

	2022 £'000	2021 £'000
Change in interest rate (basis points)		
Sensitivity of profit +200bps	1,868	2,998
Sensitivity of profit -200bps	(2,522)	147

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.

37. Earnings per share

Analysis of number of shares in the periods:

	2022 No.	2021 No.
Number of shares:		
At period end	179,369,199	179,369,199
Basic:		
Weighted average number of shares in issue in the year	179,369,199	168,808,800
Diluted:		
Effect of weighted average number of options outstanding for the year	-	-
Diluted weighted average number of shares and options for the year	**179,369,199**	**168,808,800**

Earnings attributable to equity holders:

	2022 £'000	2021 £'000
Earnings attributable to ordinary shareholders:		
Profit/(loss) after tax attributable to the shareholders	9,761	(3,676)

Earnings per share calculation:

	2022 pence	2021 pence
Earnings per share:		
Basic	5	(2)
Diluted	5	(2)

38. Related party disclosures

In the year ended 31 December 2022, Directors were awarded share based payments, refer to note 9 for further details.

Directors' emoluments are disclosed in note 8 of these consolidated financial statements.

39. Subsequent events

In January 2023, the Bank agreed an initial £175m ENABLE Guarantee with the British Business Bank, which may also be increased in the future to £350m. As a regulated bank, this scheme enables the Bank to benefit from a zero risk-weighted HM Government guarantee on a fixed percentage of credit losses in excess of an agreed first loss threshold on the loan portfolio originated under the Guarantee. This zero-risk weighting of assets above this threshold provides the Group with incremental capacity to scale its loan book without the need for additional Tier 1 equity capital. The Bank commenced using the Guarantee effective from 31 March 2023.

The Company Statement of Financial Position

	Note	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Assets:			
Loans and advances to banks[1]	5	146	530
Trade and other receivables	7	155	119
Investment in subsidiaries	8	134,213	134,213
Total assets		**134,514**	**134,862**
Liabilities:			
Amounts payable to Group Undertakings	9	5,522	5,110
Trade and other payables	10	700	545
Financial liabilities	11	50	50
Total liabilities		**6,272**	**5,705**
Equity:			
Issued share capital	12	1,793	1,793
Share premium	12	39,273	39,273
Merger relief	12	94,911	94,911
Retained loss		(7,371)	(6,456)
Own shares		(364)	(364)
Total equity		**128,242**	**129,157**
Total equity and liabilities		**134,514**	**134,862**

1 During the year ended 31 December 2022, the Company reclassified 'cash and cash equivalents' to 'loans and advances to banks' in the statement of financial position to be consistent with the consolidated financial statements. See note 1.4 of the consolidated financial statements for details of this reclassification.

The notes on pages 184 to 189 are an integral part of these financial statements.

Distribution Finance Capital Holdings plc recorded loss after taxation for the year ended 31 December 2022 of £1,414,000 (2021: loss of £868,000). These financial results are derived entirely from continuing operations.

These financial statements were approved by the Board of Directors and authorised for issue on 18 April 2023. They were signed on its behalf by:

………………………………………

Carl D'Ammassa
Director
18 April 2023

Registered number: 11911574

The Company Cash Flow Statement

	Note	2022 £'000	2021 £'000
Cash flows from operating activities:			
Loss before taxation	4	(1,414)	(868)
Adjustments for non-cash items and other adjustments included in the income statement	6	(1,029)	(1,366)
Decrease in operating assets		(34)	35
Increase in operating liabilities		155	282
Taxation paid		-	-
Net cash used in operating activities		**(2,322)**	**(1,917)**
Cash flows from financing activities:			
Issue of new shares	12	-	38,645
Acquisition of shares in DF Capital Bank Limited	8	-	(38,600)
Proceeds from intercompany loan		1,938	2,199
Net cash from financing activities		**1,938**	**2,244**
Net increase in cash and cash equivalents		**(384)**	**327**
Cash and cash equivalents at start of the year		530	203
Cash and cash equivalents at end of the year	6	**146**	**530**

The Company Statement of Changes in Equity

	Issued share capital £'000	Share premium £'000	Merger relief £'000	Retained loss £'000	Own shares £'000	Total £'000
Balance at 1 January 2021	**1,066**	**-**	**94,911**	**(4,595)**	**(364)**	**91,018**
Loss after taxation	-	-	-	(868)	-	(868)
Employee Benefit Trust	-	-	-	-	-	-
Share based payments	-	-	-	362	-	362
Issue of new shares	727	39,273	-	(1,355)	-	38,645
Balance at 31 December 2021	**1,793**	**39,273**	**94,911**	**(6,456)**	**(364)**	**129,157**
Loss after taxation	-	-	-	(1,414)	-	(1,414)
Share based payments	-	-	-	499	-	499
Issue of new shares	-	-	-	-	-	-
Balance at 31 December 2022	**1,793**	**39,273**	**94,911**	**(7,371)**	**(364)**	**128,242**

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 2022, 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

	2022 £'000	2021 £'000
Net loss attributable to equity shareholder of the Company	(1,414)	(868)

5. Loans and advances to banks

	2022 £'000	2021 £'000
Included in cash and cash equivalents: balances with less than three months to maturity at inception	146	530
Total loans and advances to banks	**146**	**530**

As detailed in note 1.4 of the consolidated financial statements, the Group reclassified cash and cash equivalents of £530,000 in the year ended 31 December 2021 from 'cash and cash equivalents' into 'loans and advances to banks' within the statement of financial position. This change has been reflected in the Company financial statements to remain consistent with the consolidated financial statements.

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:

	2022 £'000	2021 £'000
Loans and advances to banks	146	530
Total cash and cash equivalents	**146**	**530**

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

	2022 £'000	2021 £'000
Management fee recharge	(1,205)	(1,502)
Movement in other provisions	-	-
Share based payments	176	136
Total non-cash items and other adjustments	**(1,029)**	**(1,366)**

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 2022 and 31 December 2021.

7. Trade and other receivables

	2022 £'000	2021 £'000
Other debtors	50	50
Indirect taxes	4	2
Prepayments	101	67
Total trade and other receivables	**155**	**119**

8. 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

In the years ended 31 December 2022, there was no changes to investment in subsidiaries.

In February 2021, the Company undertook a placing of new ordinary shares raising £40.0 million of additional capital before expenses and approximately £38.6 million after expenses. Following the placing, DF Capital Bank Limited, a wholly owned subsidiary of the Group, issued 38,600,000 ordinary shares of £1.00 nominal value each to Distribution Finance Capital Holdings plc at a price of £1.00 per share giving an aggregate subscription price of £38.6 million.

For the year ended 31 December 2022, the Company conducted an impairment assessment of the investment in subsidiaries and concluded that there is no impairment required (2021:£nil).

9. Amounts payable to Group undertakings

	2022 £'000	2021 £'000
Amounts payable to DF Capital Bank Limited	5,522	5,110
Total amounts payable to Group undertakings	**5,522**	**5,110**

10. Trade and other payables

	2022 £'000	2021 £'000
Trade payables	-	21
Accruals	654	488
Social security taxes	46	36
Total trade and other payables	**700**	**545**

11. Financial liabilities

	2022 £'000	2021 £'000
Preference shares	50	50
Total financial liabilities	**50**	**50**

Reconciliation of movements in financial liabilities:

	Preference Shares £'000
Balance at 1 January 2021	**50**
No transactions in the year	-
Balance at 31 December 2021	**50**
No transactions in the year	-
Balance at 31 December 2022	**50**

12. Share capital

	2022 No	2021 No	2022 £'000	2021 £'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
Balance at 1 January 2021		**106,641,926**		**1,066**	**-**	**94,911**	**95,977**
Issue of new shares	22-Feb-21	72,727,273	0.55	727	39,273	-	40,000
Balance at 31 December 2021		**179,369,199**		**1,793**	**39,273**	**94,911**	**135,977**
No transactions in the year		-	-	-	-	-	-
Balance at 31 December 2022		**179,369,199**		**1,793**	**39,273**	**94,911**	**135,977**

13. Financial instruments

The Group monitors and manages risk management at a group-level and, therefore, the Risk Management Framework stipulated in note 36 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 and liquidity 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.

See note 36 of the consolidated financial statements for further details on how the Company defines and manages credit risk and liquidity risk.

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:					
Amounts payable to Group Undertakings	5,522	5,522	-	-	5,522
Trade payables	-	-	-	-	-
Other payables	46	46	-	-	46
Preference shares	50	50	-	-	50
	5,618	**5,618**	**-**	**-**	**5,618**
31 December 2021					
Financial assets not measured at fair value:					
Loans and advances to banks	530	530	530	-	-
Other receivables	52	52	-	-	52
	582	**582**	**530**	**-**	**52**
31 December 2021					
Financial liabilities not measured at fair value:					
Amounts payable to Group Undertakings	5,110	5,110	-	-	5,110
Trade payables	21	21	-	-	21
Other payables	36	36	-	-	36
Preference shares	50	50	-	-	50
	5,217	**5,217**	**-**	**-**	**5,217**

Maximum exposure to credit risk:

	2022 £'000	2021 £'000
Loans and advances to banks	146	530
Trade and other receivables	54	52
	200	**582**

Maturity analysis for financial assets

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

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**	**-**
31 December 2021							
Loans and advances to banks	530	530	530	-	-	-	-
Other receivables	52	52	2	-	-	50	-
	582	**582**	**532**	**-**	**-**	**50**	**-**

Maturity analysis for financial liabilities

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

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
Amounts payable to Group Undertakings	5,522	5,522	-	-	5,522	-	-
Other payables	46	80	1	-	51	28	-
Preference shares	50	50	-	-	-	50	-
	5,618	**5,652**	**1**	**-**	**5,573**	**78**	**-**
31 December 2021							
Amounts payable to Group Undertakings	5,110	5,110	-	-	5,110	-	-
Trade payables	21	21	21	-	-	-	-
Other payables	36	82	-	-	1	81	-
Preference shares	50	50	-	-	-	50	-
	5,217	**5,263**	**21**	**-**	**5,111**	**131**	**-**

14. Subsequent events

There have been no subsequent events between 31 December 2022 and the date of this report which would have a material impact on the financial position of the Company.

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

FSC
www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C001785

Printed by Park Communications – A Carbon Neutral company

The material used in this Report is from 100% recycled material. The paper mill and printer are both registered with the Forestry Stewardship Council (FSC) ® and additionally have the Environmental Management System ISO 14001. It has been printed using 100% offshore wind electricity sourced from UK wind.