



DF Capital

Distribution Finance Capital Holdings plc

**Annual Report and
Financial Statements 2020**

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COMPANIES HOUSE

DF Capital is a specialist personal savings and commercial lender that provides niche working capital funding solutions to clients across the UK, enabled by competitively priced personal guarantees.

We are a team of experts, with specialist knowledge, who help to support the growth of poorly served SME businesses through our lending products and services.

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Our Risk Management Framework
Our Risk Management Lifecycle

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Company Information

Distribution Finance Capital Holdings plc

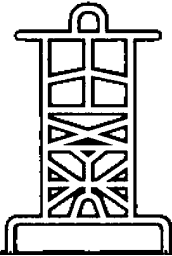
Directors	<i>John Baines Independent Chairman</i> <i>Mark Stephens Senior Independent Non-Executive Director</i> <i>Carole Machell Independent Non-Executive Director</i> <i>Thomas Grathwohl Independent Non-Executive Director</i> <i>Stephen Greene Non-Executive Director</i> <i>Haakon Stenrød Non-Executive Director</i> <i>Carl D'Amassa Executive Director (Chief Executive Officer)</i> <i>Gavin Morris Executive Director (Chief Financial Officer)</i>
Company Secretary	Tim Maw
Registered Office	196 Deansgate, Manchester, M3 3WF with effect from 1 May 2021: St James' Building, 61-95 Oxford Street, Manchester, M1 6EJ
Registered Number	11911574
Independent Auditors	Deloitte LLP 1 New Street Square London EC4A 3HQ
Nominated Adviser and Broker	Investec Bank Plc 30 Gresham Street London EC2V 7QP
Principal Solicitors	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Registrars	Equiniti Limited Aspect House, Spencer Road Lancing West Sussex BN99 6DA

DF Capital is a trading name of Distribution Finance Capital Holdings plc. Registered Office: 196 Deansgate, Manchester M3 3WF. VAT GB 337 4014 21. Company No. 11911574 (Registered in England and Wales).

Distribution Finance Capital Holdings plc is referred to throughout this report in the following ways; 'the Company', 'the Group', 'DF Capital', 'DFC' and 'DFCH plc'. 'DF Capital Bank Ltd' (formerly 'Distribution Finance Capital Ltd') is a wholly owned subsidiary of Distribution Finance Capital Holdings plc.

Distribution Finance Capital Holdings plc was incorporated in April 2019. Any of the figures in this report for 2017, 2018 and to April 2019 relate to DF Capital Bank Ltd (formerly Distribution Finance Capital Limited). From May 2019 onwards they relate to the Group.

Our journey so far



**May
2016**

**Distribution Finance Capital
co-founded by Andrew Stafferton,
and becomes known as DF Capital**



**October
2016**

**First tranche of funding
obtained following investment
by Arrowgrass Master Fund**



**March
2020**

**Carl D'Ammassa joins as Chief
Executive**

£213m

**January
2020**

**Loan book reaches record
peak of £213m before
COVID-19 impact**



**September
2020**

**DF Capital receives full
authorisation as a bank and
subsidiary renamed DF Capital
Bank Limited**



**October
2020**

**Maiden savings
product launched**



**November
2020**

**First £100m of retail
deposits raised after
just four weeks**



**April
2017**

**First manufacturer
programmes incepted
and first loan paid out**



**October
2017**

**Ambitions to
become a bank**



**April
2018**

**Business operations
open in Manchester**



**May
2019**

**Demerged from TruFin plc
and floated on AIM**

£100m

**November
2018**

**£100m loan
book achieved**



**December
2020**

**Over £145m of retail deposits
raised. Lending since inception
exceeds £1bn**



**February
2021**

**£40m fundraise to
support next phase
of growth**



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 76 to 78.

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 Review and is also laid out on pages 6 and 7.
- 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 Sustainability Philosophy section;
 - Employees in the Sustainability Philosophy section;
 - Social matters in the Sustainability Philosophy section;
 - Respect for human rights in the Sustainability Philosophy 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 Company. 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 Review

Business Overview Inventory finance funded by personal savings

Lending

How we help




Manufacturer

With DF Capital


We fund and take title of finished goods from manufacturer

Without DF Capital

Inefficient use of working capital



DF Capital



Dealer

We enable product to be sold from dealer forecourt. We are repaid when the product is sold.


Our security

Retail price £300 *For illustration:*

£50 retail mark-up	Price the end user pays the dealer
£50 deposit from dealer	Price the dealer pays the manufacturer
£200 financed by DF Capital	


Additional security examples:
guarantees + manufacturer repurchase or redistribution schemes

Product benefits




Grow sales

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




Increase profit

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




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



Speed and flexibility

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




Support and guidance

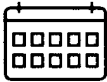
Dedicated industry teams support and guide dealers through the funding process

Savings


Products



Fixed term




Notice accounts




Great rates

Benefits



Online application



Fast account opening



Motorhome and caravans

Includes:

Touring caravans, motorhomes, and campervans.

Partners include:

Swift, Bailey, Erwin Hymer Group UK, Coachman, Carthago, Adria and Pilote.



Lodges and holiday homes

Includes:

Static caravans, holiday lodges and park homes.

Partners include:

Willerby, Swift, Omar, Prestige & Homeseeker, Atlas and Pemberton.



Marine

Includes:

Marine engines, powerboats, small day craft, as well as rigid inflatable boats, sailing boats and yachts.

Partners include:

Princess, Sunseeker and Fairline, Bavaria, Greenline, Chaparral, Axopar and Finnmaster.



Motorsports

Includes:

Motorcycles, electric motorbikes, scooters, and all-terrain vehicles.

Partners include:

Triumph Motorcycles, Ducati UK, Fantic, Artisan, Peugeot Motorcycles and Zero Motorcycles.

Leisure



Agricultural equipment

Includes:

Combine harvesters, tractors, sprayers, balers, telehandlers, groundscare and ploughs.

Partners include:

Avant, Kioti, and Zetor tractors, and support tier 1 dealers for leading brands such as SDF, Massey Ferguson and Mchale.



Industrial equipment

Includes:

Crushers and screeners, washing systems, excavators, dumpers and skid steer loaders.

Partners include:

Ausa and Terex on an array of their product lines such as Powerscreen, Finlay and Fuchs.



Transport

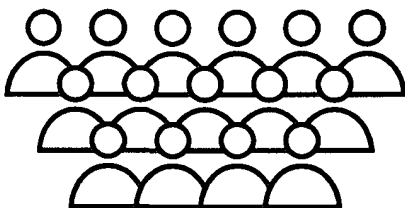
Includes:

Light commercial vehicles, trailers, and horseboxes but does not include passenger cars.

Partners include:

The UK's fastest growing electric light commercial vehicle brand, MAXUS and Equi-Trek, the UK's largest horsebox manufacturer.

Commercial



Where we work

We support UK dealers and have grown our team to 74. Our bank is headquartered in Manchester.



Our team

Chairman's Statement



John Baines
Independent Chairman

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It is pleasing for me to start this year's annual report confirming that the Group received full authorisation as a bank

Dear Shareholder

2020 was undoubtedly a challenging year following the global disruption caused by COVID-19. However, it is pleasing for me to start this year's annual report confirming that the Group received full authorisation as a bank from the Prudential Regulation Authority (“PRA”) on 29 September 2020. This has been the Group's ambition for much of its short life, having started lending in 2017 and completed the demerger from TruFin plc in May 2019 as part of the application process.

Being a bank unlocks the strategic ambition we shared at the time of the IPO and gives us the solid foundation on which to grow, building on the inventory finance lending proposition that we have proven resonates with our customers.

2020 – A challenging year

The Group was presented with a number of challenges during the year, which impacted the financial performance and slowed the runway to profitability. Throughout this challenging period, the management team has worked diligently through its action plan to protect the firm, which we shared fuller details of in June 2020. They successfully navigated the many twists and turns presented to them along the way, carefully managed the loan book whilst protecting the lending franchise, despite the constraint on wholesale funding seen for most of the year. All this was going on whilst we worked with regulators to progress the bank licence application. It is clear to the Board that management has worked hard to support the wider employee

base, our customers and the community in which we work. As a Board we are delighted, in the context of this global pandemic, with the outturn for the year.

Transition to a bank

The transition to being a bank on authorisation has been reasonably straightforward for us. We have been, in our view, bank-ready for some time, and made the deliberate choice to operate the Group as if we were already a bank since submitting our first licence application. All of the frameworks, policies and procedures have been in place for some time, and we have continued to evolve those in line with our increasing maturity, the economic environment and changes in the regulatory environment. Most importantly our deposit raising capacity was well tested and ready to go on receiving the bank licence, the results of which have been well received.

Positive outlook and well-capitalised for growth

As the UK's COVID-19 vaccine program continues successfully, and as manufacturer supply chains begin to normalise, the pent-up demand experienced by our dealers across all sectors, indicates a sizeable runway for growth ahead. That near-term demand and our positive outlook prompted the capital raise the Group concluded in February 2021, raising £40m of new capital, and broadening our shareholder base. We were delighted with the support we received for the firm's growth plan from both new and existing shareholders. The Group is well capitalised and has sufficient regulatory capital to enable growth in our loan book up to approximately £550m, a milestone we hope to achieve by the end of 2022.

Whilst we are buoyed by the positive signs we are seeing across the markets in which we operate, it is undoubted that the economic environment remains uncertain. We expect to maintain a cautious approach to lending as dealers and manufacturers continue to work their way through the worst of this pandemic and the new administrative burden following Brexit.

Stable board

We announced changes to the Board in May 2020, welcoming on-board two shareholder representative directors and Carl D'Amassa, on his appointment as Chief Executive. The composition of the Board continues to demonstrate balance of independence of oversight and decision making, which falls in line with regulatory expectations. The Board has benefited from stability of membership throughout the pandemic which has helped guide our response to the public health crisis whilst also progressing the banking licence application. Board members have been responsive to the needs of the firm and regulators, committing many hours to support the management team through these unprecedented times.

Having completed our first Board Effectiveness Review, independently assessed by Grant Thornton, I am delighted with the report's comments in relation to the positive dynamic within the Board, the level of skill, capability and expertise Board members bring to the firm, and the degree of engagement.

I would like to extend my appreciation to the entire Board for their commitment and counsel throughout these difficult times, it is undoubted that the Group has benefited significantly.

Our people have made the difference

As you read this annual report, I am confident you will feel as I and the Board do, that the firm's response to the pandemic has been exceptional; we feel lucky to have had strength of leadership within the firm and a management team which has worked tirelessly throughout this unprecedented period.

Whilst our proposition is highly digitised much of our business is generated on the back of the strength of relationships we have with our customers and the quality of service we offer. The entire DF Capital team has remained true to our values, going the extra mile to do the right thing for our customers, whilst looking out for each other from a wellbeing perspective. I am very proud of the entire DF Capital team and the culture which has been built within the firm.

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I am very proud of the entire DF Capital team and the culture which has been built within the firm

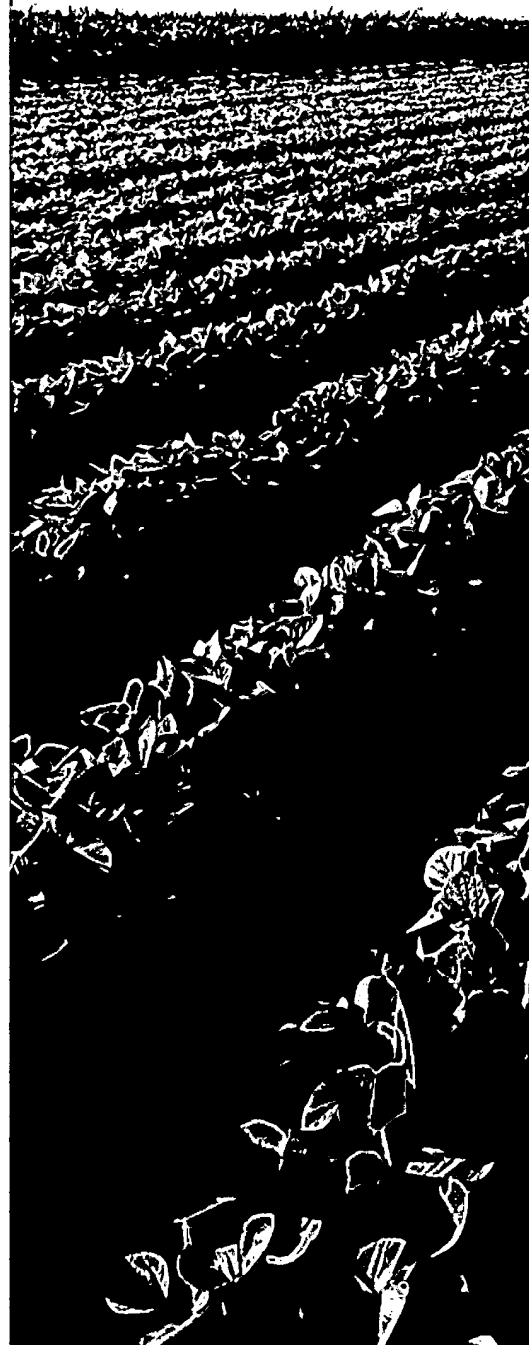
Looking to the future

As we look forward, 2021 is about re-building our loan book and capitalising on the strong demand we see for our lending products. The impact of the pandemic has created a number of unknowns such as the impact of increased stock turn resulting from the high demand for leisure assets in particular and the later knock on as we return to normalised levels of product demand. We remain well connected with our customers, understanding their pipeline and borrowing needs, which are the basis of our internal growth forecasts.

As a bank, with retail deposits as our sole source of funding and sufficient capital to support our growth, the Board believes the Group has all the ingredients to unlock many of the growth ambitions laid out at the time of the IPO.

We can now focus our efforts on creating a successful and stable franchise for the bank, reaching profitability, and delivering strong shareholder returns over the medium term.

John Baines
Independent Chairman



Chief Executive Officer’s Report



Carl D’Ammassa
Chief Executive Officer

Dear Shareholder

We start 2021 in an enviable position. We have navigated the challenges of COVID-19 well; we have no pandemic related legacy credit issues in our portfolio; we have protected our lending franchise; and we received full authorisation as a bank so have now transformed our cost of funding.

Whilst it feels, certainly on a relative basis that we are on solid ground, it is undoubted that 2020 was a tough year and we continued to make a financial loss. Pursuing a bank licence is a significant task alone, however, the additional challenge driven by the constraints imposed on our wholesale funding facilities whilst also doing what we could to support our customers was a difficult balancing act. Add to that the need to lead DF Capital’s team on a remote basis, as a newly appointed Chief Executive at the start of the first lockdown in March 2020, these challenges were materially amplified.

Looking back on the impact of COVID-19

Whilst we enter 2021 as a bank, it is hard not to look back at 2020 and recognise it was a challenging year for the Group. The global pandemic has had a devastating effect not only on businesses but also on our collective wellbeing and personal lives. The Group itself was neither insulated nor immune from the far-reaching impact of the health crisis. You will remember, however, we previously laid out a comprehensive impact assessment and associated action plan that would help navigate the difficult months of lockdown. We expected, back in June 2020, that the impact would be

felt through to the final quarter of the year, although that view is significantly out-dated as we still find ourselves in a period of lockdown albeit seeing light at the end of the tunnel as the UK’s vaccine programme kicks in at pace.

At the time of the first lockdown we were quick to implement working from home, with all members of the team having access to the required technology that allowed them to continue to provide services to our customers. The majority of our employees have operated throughout the pandemic on a remote basis.

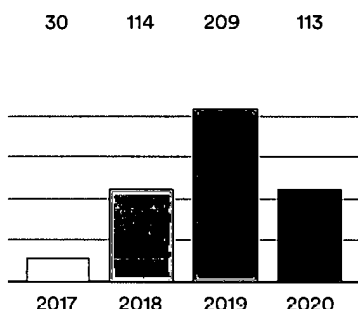
The momentum the firm had built immediately prior to the first lockdown was significantly curtailed, which in turn had an adverse impact on the financial performance of the Group throughout the year. The Group’s loan book peaked at £213m on 30 January 2020 and at that time we saw significant opportunity to grow lending - constrained only by the available capacity in our wholesale funding lines. As the extent of COVID-19 became clear, the Group faced extensive restrictions on its wholesale funding imposed by its lenders as a market wide reaction to the pandemic.

Many of our dealers and manufacturers were closed throughout the first lockdown to 15 June 2020 and that presented them with many challenges. As restrictions were eased, our dealer customers experienced significant increases in sales, particularly in the leisure related sectors we lend to; the trend towards “staycation” saw motorhome, caravan and lodge sales boom. The reluctance to use public transport resulted in strong demand for motorcycles and electric bikes. This high consumer demand for new products, coupled with the levels of replenishment stock available to dealers and the restrictions placed on our wholesale funding facilities, significantly impacted the firm’s ability to grow its loan book, which reached a low point in mid-October 2020.

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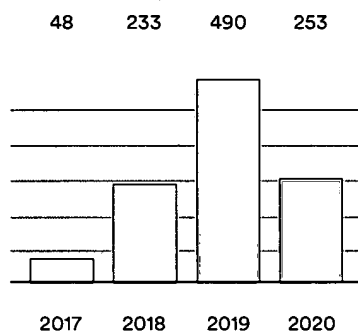
Whilst we enter 2021 as a bank, it is hard not to look back at 2020 and recognise it was a challenging year for the Group

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

I am extremely proud of the DF Capital team, not only for the rising to the challenge of COVID-19 but also showing compassion for each other, looking out for their colleagues, whilst also offering the best support possible to our customers. In our inaugural annual report in June 2020, I noted that I felt the team had some unique characteristics and they are what makes the difference for our customers. The team has remained true to its values throughout the pandemic: Straightforward; Expert and Flexible.

Successful transition to a bank

2020 saw a number of significant milestones for the Group. In addition to our loan book reaching a peak of £213m prior to the first lockdown, the Group's cumulative lending since the first loan was made in 2017 exceeded £1bn in December 2020. Our most significant accolade, felt by everyone in the firm, was receipt of the bank licence in September 2020.

Prior to the award of a bank licence, throughout the pandemic we continued to develop the business and our banking capabilities. We continued to operate as if we were a bank, with all of the risk management disciplines and cultural elements fully operational. We invested in DF Check, our technology-based remote auditing tool, and further enhanced our deposit raising capabilities so we would be 'ready to go' should the bank licence be granted. Since the transition to a bank we haven't looked back, many of the pandemic driven challenges feel far behind us.

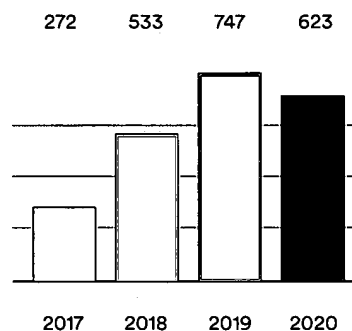
Stable low-cost funding in place

Unsurprisingly, once we received notification of full authorisation as a bank, we were quick to raise deposits. We built up the expected regulatory liquidity buffers and raised over £145m in the 12 weeks to 31 December 2020, however, £130m was raised within six weeks of launch in mid-October 2020. Our highly digitised online account opening process worked well and received strong positive feedback from our depositor customers, which also saw us recognised with a feefo Trusted Service Award in January 2021 with a satisfaction score of 4.3 out of 5. During the 12 weeks to 31 December 2020, we had launched seven fixed rate personal savings products and a 90-day notice account. We have built, in a short space of time, a solid product maturity profile which means we will not face significant spikes of deposit withdrawals as products mature and accordingly need to raise significant amounts of new deposits to replace them.

The success of the deposit raising allowed us to repay all of our expensive wholesale funding and a loan from the Group's former parent, TruFin plc, earlier than anticipated. Starting 2021 funded by retail deposits and our own capital transforms the Group's net interest margin ('NIM') and underpins our roadmap to profitability. The Group's NIM is projected to increase to c6% in 2021, from c2% in 2020 when the firm was entirely funded by expensive wholesale finance.

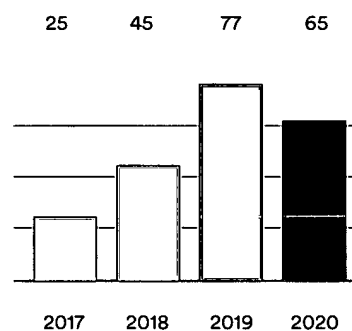
Despite good progress and strong support from the British Business Bank ("BBB") for the Group to participate in its Enable Funding Scheme, an alternative wholesale funding facility, we decided to postpone any near-term diversification of our funding model until such time as we have reached greater scale. We still believe that our current funding model unlocks our growth plans more rapidly and offers the most flexibility to support lending and product development, whilst also delivering stronger financial returns given the lower cost of funding through deposits. We have not ruled out participating in Bank of England schemes (such as TFSME) once we have the required infrastructure in place.

Number of dealer customers



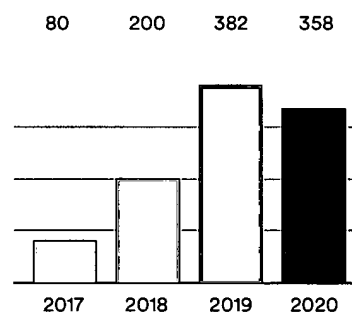
Number of borrower relationships

Number of manufacturer partners



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

Total credit lines (£m)



Amount of credit available to our customers to draw

Financial performance aligned to loan book

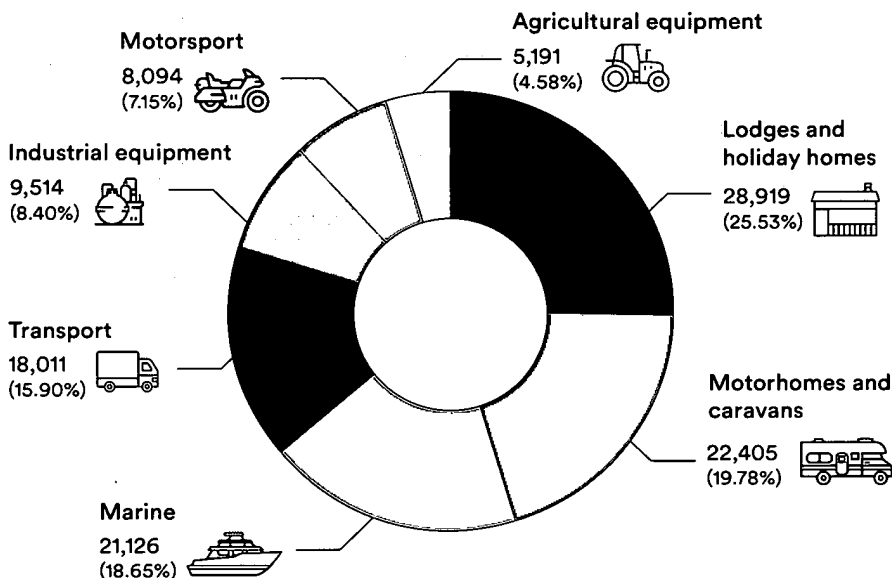
As a specialist lender, operating in a niche market, our financial performance is predominantly aligned to the size and shape of our loan book. Without doubt, the financial outturn for 2020 was not what we expected when we started the year. Restrictions on our wholesale funding lines, strong sales for dealers throughout the summer following the end of the first lockdown, and minimal availability of new stock to finance saw our loan book reach a low-point of £83m in mid-October 2020. Accordingly we remain a loss-making business. However, having repaid all wholesale funding and fully restarted lending on 4 November 2020, we have seen a significant bounce back of the loan book, which reached £113m at 31 December 2020 and now exceeded £193m at 31 March 2021 (up 70% versus 31 December 2020). This is in line with our expected growth plan for 2021 and our anticipated roadmap to hit monthly profitability during Q4 2021 once our loan book exceeds approximately £270m.

We have worked tirelessly to manage the arrears and default performance of the loan book throughout the year. This led to an improvement in arrears performance as a percentage of loan book to 0.2% at 31 December 2020 (2019: 0.8%). We have also carefully managed costs throughout the year, right sizing our team to align to our growth plan and furloughing a small number of colleagues during the first lockdown. Unfortunately we were unable to protect those roles permanently. Whilst we received support from the government's Job Retention Scheme of £89k during the period, this has been repaid in full.

Strong underlying performance across most sectors

Our lending products support the working capital requirements of dealers and manufacturers by enabling finished goods to be shipped from manufacturers to dealers' forecourts. The trend for "staycations" through the year, and the rise in focus for many consumers on their leisure time, saw demand for leisure assets significantly increase, with many dealers reporting record levels of sales, hindered only by the availability of replenishment assets.

Portfolio by sector - year end 2020 (£'000)



Whilst replenishment units are now flowing, many dealers, particularly in the motorhome, caravan, lodge, and marine space, forecast similar levels of demand through 2021, with seasonal spikes in sales as seen over Easter 2021 and expected during the summer months. Likewise, a reluctance to use public transport, also aided by greater focus on hobbies and leisure activities, has seen strong sales of motorcycles and electric bikes, particularly at the entry and mid-price value end of the product range. We expect strong demand for our lending outside of these seasonal windows, over the autumn and winter months, as dealers replenish their forecourts.

Our commercial or non-leisure sectors, which includes transport, agriculture, plant and machinery, generally see a more consistent performance over the year with lower seasonal variances. As we look forward, these sectors are expected to mitigate some of the seasonal variance likely across the leisure products. Transport, in particular, is seen as a growth sector for us given the demand for light commercial vehicles and electric vans to support increased home deliveries. We also anticipate increased demand in plant and machinery benefiting from significant infrastructure investment projects such as HS2.

Whilst Brexit presented some logistical challenges for manufacturers and distributors in bringing product or components into the UK, largely hindered by new import processes and additional levels of documentation and administration during the winter of 2020, these have eased significantly which has normalised product flow. In some sectors, manufacturers are still trying to play catch-up but expect their operations to be back on track as we progress through 2021.

“ We remain committed to building a multi-product SME focused lending franchise

The pandemic has changed many of the conventional market dynamics and accordingly we expect stock to sit with dealers for shorter times, given the extent of demand and pre-ordering across a number of asset classes. However, our loan book projections are sophisticated and take into account sector specific seasonality and facility utilisation rates, as well as conversion of pipeline opportunities and growth initiatives within the sectors that we currently operate.

Outlook and growth plan

Much of the drive to complete the £40m capital raise in February 2021 was as a result of the significant pipeline of lending facilities. At 12 January 2021, we saw a pipeline of potential facilities totalling some £850m, which has increased further to £900m as at 31 March 2021. The capital raise gives us the regulatory capital to support this growth opportunity over the next 18 to 24 months, lending more to existing customers and supporting more dealers and manufacturers in our current sectors of focus. Converting this pipeline could unlock a loan book up to £550m, when adjusting for seasonal utilisation rates. The client need for our working capital lending products is clear.

We have cleansed our pipeline in light of the pandemic, refreshed the credit assessment of our dealers and have rationalised the number of dealers we have credit appetite to support from 747 at 31 December 2019 to 623. We support 65 manufacturers, which gives us access to over 1,700 dealers. Our efforts as we start 2021 are focused on converting more of those dealers and other prospects in our pipeline into DF Capital customers, thus significantly growing our market share.

Whilst we see significant capacity to grow our current inventory finance lending product, we remain committed to building a multi-product SME focused lending franchise. We believe many SME's remain poorly served by incumbent lenders. Whilst Government intervention in the form of various Coronavirus related loans has been an important catalyst that has supported SME lending through the pandemic, we do believe that once these schemes are withdrawn the significant funding gap for small and medium sized businesses will widen. Our ambitions to diversify our lending capability into adjacent products will allow us to play a bigger role in the UK SME lending space. We will be focused on products that resonate with our dealers and manufacturers as obligors or partners in the distribution of finance, such as short-term working capital, invoice discounting, asset finance and leasing. We have not ruled out product development through inorganic routes as a way to further accelerate our business plan.

Applauding our people

Working entirely remotely has not been easy. We have had to find new ways of working effectively and doing our best for our customer base. Our technology has been robust throughout and the entire team has had the equipment they need to fulfil their roles, alongside additional financial support to cover incremental costs of working remotely. We have worked hard to keep the team connected and morale high, with a focus on wellbeing and mental health. I am pleased with the resilience the team has shown throughout the pandemic, however, I know everyone is looking forward to more normal times and returning to the office. Our business model is built on the premise of strong customer service and deep relationships with our customers – the DF Capital team has excelled and have proven they are great at what they do.

I do believe that the Group has achieved amazing things since it first started lending in 2017. That being said, 2021 feels, certainly to me, as the start of the most exciting chapter of our journey to date. We will truly be able to bring to life many of the ambitions laid out at the time of our IPO now that we are a bank, and well-capitalised for the next phase of our growth.

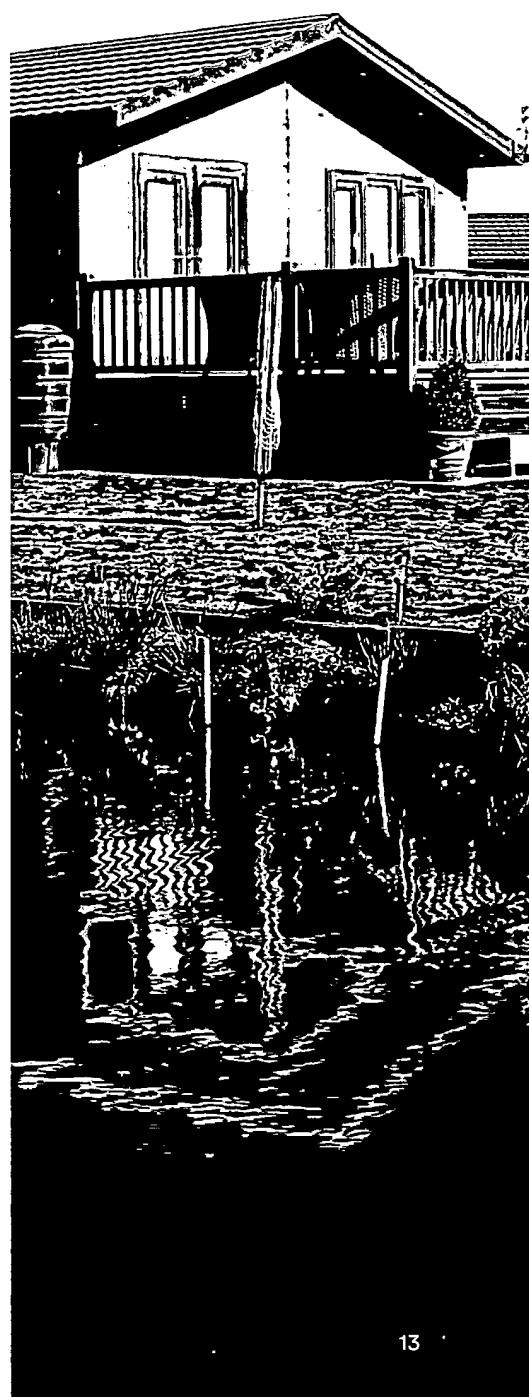
Whilst the economic environment remains uncertain, the strong performance we have seen so far this year gives us early confidence about the achievability of our 2021 plan. The Group is currently performing in line with expectations.

I would like to take this opportunity to thank our shareholders, many of whom have been on this journey with us for an extended period of time, for their patience, support and commitment throughout. We are building a great bank together.

Carl D'Ammassa
Chief Executive Officer

“

I do believe that the Group has achieved amazing things since it first started lending in 2017



Chief Financial Officer's Report



Gavin Morris
Chief Financial Officer

Dear Shareholder

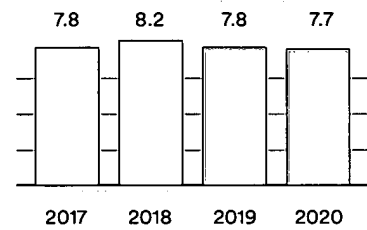
Navigating the loan book through the pandemic

The Group's financial performance is intrinsically linked to the size of the firm's loan book and the fees and interest we charge to our borrowers. We entered 2020 with a loan book of £209m, which peaked at £213m at the end of January 2020, constrained only by the available capacity in our wholesale funding.

As the COVID-19 pandemic unfolded, there were clear impacts on dealers. During the first lockdown they were forced to close and once lockdown restrictions were lifted many saw record sales and demand for their products, that led to our loans being repaid. As manufacturers were closed through this period and due to the knock-on impact of their supply chains, lower levels of new stock was available to dealers to replenish their forecasts, against which the Group could secure our lending products. These dynamics coupled with restrictions imposed by the Group's lenders on the availability of wholesale funding led to reductions in our loan book which reached a low point of £83m in mid-October 2020. In light of these challenges, the Group remained loss-making, reporting a statutory loss of £13.6m for the year ended 31 December 2020.

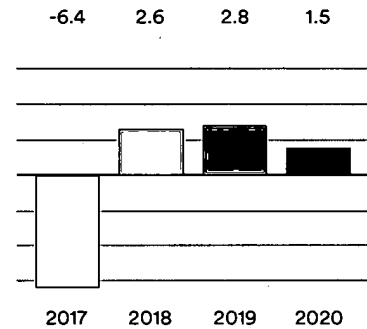
Since receiving the bank licence, raising deposits and accordingly fully reopening for new lending, we have seen the loan book grow to £113m by the end of 2020, an increase of 36% from the low-point in mid-October 2020. We have seen the supply chains of our manufacturer partners stabilise and as a result new assets are flowing more freely to dealers.

Gross yield (%)



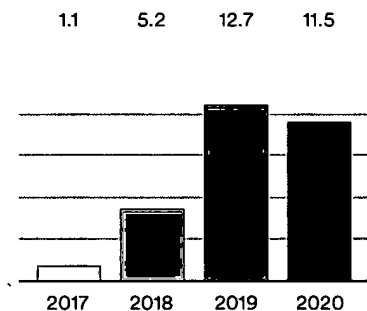
The effective interest rate we charge our customers including fees

Net interest income (%)



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

Gross revenue (£m)



The interest and fees we earn on our loans

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Throughout the pandemic we have worked hard to be a supportive lender

Reduced gross revenues with stable yield

Throughout the pandemic we have worked hard to be a supportive lender to our dealers. We waived facility fees for all customers from March 2020, reintroducing them during December 2020. Our approach to pricing otherwise has not changed which has delivered a stable gross yield at 7.7% (2019:7.8%). The significant reduction in loan book during 2020 meant the average loan book during the year was below that of 2019, resulting in gross revenues (which are predominantly comprised of interest and facility fees) reducing by 9% to £11.5m.

Funding profile transformation

Net Interest Income (which is gross yield less interest expense) decreased during the year to 1.5% (2019: 2.8%). This reduction was predominantly due to higher wholesale funding costs largely driven by the more expensive senior mezzanine facility being in place for the majority of 2020. The mezzanine facility was originally put in place in 2019 as a short-term measure to facilitate further loan book growth at a time the Group expected its banking licence to be granted in the near term. Following receipt of the bank licence on 29 September 2020, the Group started deposit raising on 14 October 2020. £145m was raised by the end of 2020 across a range of product maturity profiles (90-day notice and fixed

Summarised Statement of Comprehensive Income	2020 £'000	2019 £'000
Gross revenues	11,511	12,655
Interest expense	(9,174)	(8,207)
Net income	2,337	4,448
Operating expenses	(15,063)	(14,080)
Impairment charges	(1,294)	(1,582)
Provisions for commitments and other liabilities	417	(165)
Exceptional items	-	(2,125)
Loss before taxation	(13,603)	(13,504)
Taxation	-	-
Loss after taxation	(13,603)	(13,504)
Other comprehensive (loss)/ income	(22)	4
Total comprehensive loss	(13,625)	(13,500)

products with terms of 1 year, 2 year, 15 months and 18 months).

The success of this deposit raising enabled both the wholesale funding and a loan from TruFin Plc to be fully repaid in November 2020 ahead of schedule; as a result, since that time, the Group is now funded solely by deposits and equity.

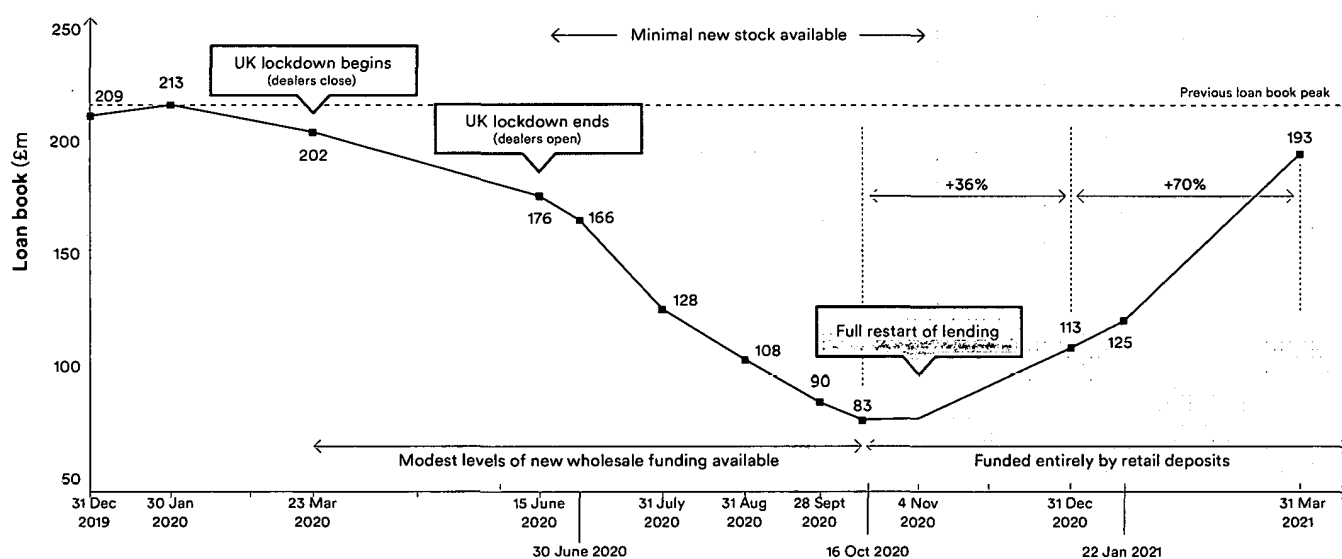
Going forward, this will be transformational for the Net Interest Margin ('NIM') of the Group; retail deposits raised in the last quarter of

2020 following the launch of our deposit taking operations was raised at rates of less than 1.25% versus a blended cost of over 6% for our previous wholesale funding, senior mezzanine facility and TruFin loan. This should see our NIM increase to c6% in FY21 (2019: c2%).

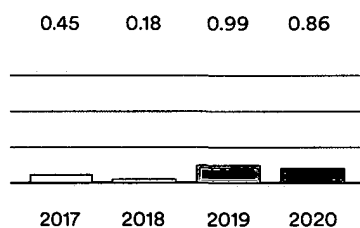
Strong arrears and impairments performance

We have continued to intensively manage arrears, whilst supporting our dealers through the pandemic. During the first lockdown we provided modest

Evolution of our loan book



Cost of risk (%)



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

levels of forbearance to dealers (less than 2% of the loan book by value) and rescheduled principal repayments where required, to help during the period their businesses remained closed. There have been minimal forbearance requests since the first lockdown ended.

Our approach has delivered significant reductions in arrears balances which are now materially lower than pre-pandemic levels. We enter 2021 with “no pandemic related legacy” issues in the loan book. Whilst this out-turn is positive, we are not complacent and recognise that we remain in a period of economic uncertainty with a number of government backed support schemes due to come to an end over the coming months, which could impact our arrears performance from these extraordinary low levels.

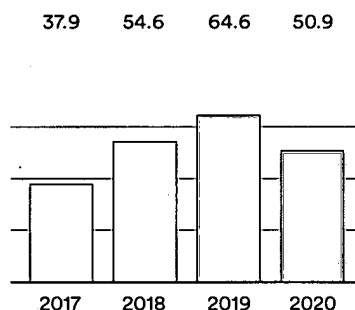
Impairment charges and provisions for the period reached £1.3m (2019: £1.6m). The year-on-year reduction largely reflects the reducing size of the loan book through the year with a related fall in loan provisioning. As a percentage of average gross receivables, the Group’s loss rate for 2020 was 0.86% (2019: 0.99%). The impairment allowance at 31 December 2020 as a percentage of gross receivables was 1.14% (December 2019: 0.67%), an increase that reflects the estimated impact of the pandemic on the UK economy and our customer base. These estimates are higher than we have actually seen during 2020 but we believe align with broader economic indicators.

Strong security position

As a niche lender, we provide working capital to UK based dealers secured against their inventory or stock. We advance funds to them at a discount to

	31 December 2020	31 December 2019
Arrears (£'000) - principal repayment, fees and interest		
1-30 days past due	27	643
31-60 days past due	22	225
61-90 days past due	39	87
91 days + past due	132	762
	220	1,717
Total % of loan book	0.2%	0.8%
Associated principal balance (£'000)		
1-30 days past due	96	5,505
31-60 days past due	7	482
61-90 days past due	14	226
91 days + past due	259	857
	376	7,070
Total % of loan book	0.3%	3.4%

Net assets (£m)



The equity held in the Group

the wholesale invoice price charged by the manufacturer. The value of dealer loans outstanding compared to wholesale value (“loan to value”) at 31 December 2020 was 80% (December 2019: 84%).

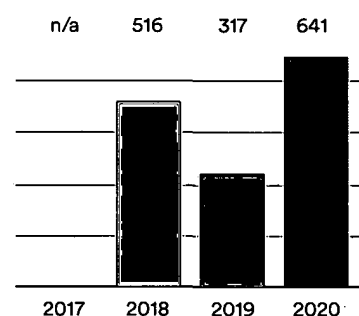
We do not advance against retail prices, which typically represent a mark-up of approximately 20% on the wholesale invoice price. Accordingly, for our security position to be at risk, and for the Group to incur losses on recovery of an asset in the event of default, there would need to be an average reduction of c32% in retail prices across the sectors and asset classes we support. We hold additional security in the

form of debentures, personal and directors’ guarantees as well as having manufacturer repurchase or redistribution agreements in place across c50% of our loan book.

Leveraging our infrastructure following receipt of bank licence

Prior to receiving our bank licence, we had made the conscious decision to operate as if we were a bank, which required enhanced operating structures, governance frameworks and risk management procedures. The absence of a bank licence effectively meant all of the costs

Cost to income ratio (%)



Operating cost as a % of net income generated

of being a bank were absorbed by the Group without the benefit of significantly reduced cost of funds. Having received the bank licence during the year, we expect a significant improvement in Net Interest Margin in FY21 and as a result start to see the net benefit of the investments we have made to support a bank-ready infrastructure.

Whilst the Group did take action to reduce the cost base at the start of the first lockdown with these benefits flowing through the balance of the year, given the pandemic related reductions in our loan book, we have continued to operate inefficiently. Our cost to income ratio closed the year at 641% (2019: 317%).

Despite the cost actions taken in March 2020 and our headcount ending the year at 74, down from 90 at year end 2019, operating expenses increased during the period to £15.1m (2019: £14.1m excluding exceptional items). This increase largely reflected recurring operating expenditure and specific recruitment decisions made during the second half of 2019 for which a full year's cost has been recognised in 2020.

As a firm focused on growth, with a highly digitised client facing processes, much of the cost we need to support our near-term loan book targets is already embedded. We expect to become more efficient over time as the loan book grows and will see significant reductions in our cost to income ratio. We believe we have adequate people resources and a cost profile that will support our roadmap to a monthly profitable run-rate.

Resilient capital base

Our CET1 ratio at the end of 2020 was c.50%; well above our regulatory capital minimum limits. With equity at the year-end of £50.9m (2019: £64.6m), this capital excess would allow the Group's loan book to exceed £270m. Having further strengthened our capital base by raising £40m in February 2021, we estimate that we have sufficient regulatory capital to support a loan book of in the region of £550m.

Gavin Morris
Chief Financial Officer





Our Sustainability Philosophy

Getting it right for...



...our employees,



...our customers,



...our communities,



...the environment



...and our shareholders.

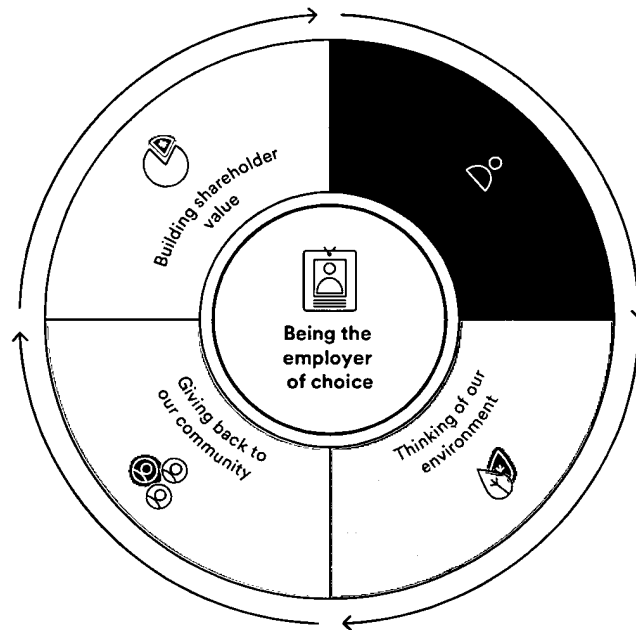
Sustainability

Getting it right for our employees, our customers, our communities, the environment and our shareholders.

At DF Capital we strive to be different! We are building a bank that breaks the mould of banking stereotypes. We are committed to being straightforward, expert, and flexible in how we go about business – that’s how we create great experiences for our customers. It’s the DF Capital way.

As a young but maturing firm, we continue to evolve our approach to sustainability, however even at this early stage of our development we feel we are making great progress in our efforts. Our commitment to building a sustainable and brighter future is grounded in the firm belief that it is our employees that make all the difference. Engaged employees, who enjoy their work, will help us build a great business. They are the cornerstone of our efforts to deliver for our customers, our communities, the environment and ultimately our shareholders.

We want to be the employer of choice, an organisation that can attract the best talent in the industry because of who we are, what we do and how we do it. We aspire to create an environment where our people feel empowered to make a real contribution to our business. We do this by defining a clear purpose and vision, providing colleagues with countless opportunities to learn and grow, cultivating a place



where they can 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.

Our team is made up of people who understand that delivering for our customers differentiates us; giving back to our local communities is a shared goal; doing what we can to protect the

environment is a global mission; and by getting these things right we will deliver for our shareholders.

This virtuous circle, centred around our employees, is the essence of our Sustainability Philosophy and getting these ingredients right, we believe, will drive performance, create the right culture across the firm and deliver on our financial ambitions.

“Developing our Sustainability Philosophy builds greater resilience into our business model. Our employees are at the heart of our approach, it’s their energy and commitment that will make the difference and bring our agenda to life.”

Carl D’Amassa
Chief Executive Officer



Getting it right for our employees

Supporting our people through the tough(er) times

It is undoubted that the global pandemic has had a far-reaching impact on the economy, society and our personal lives. Like many other people, our employees have bravely faced these challenges, even when navigating their own personal circumstances and hardship. They have worked hard throughout, to support our customers and give back to society. As a firm, we have been focused on keeping our employees safe and ensuring they feel supported throughout this difficult period.

As the pandemic first hit in March 2020, we had already road-tested remote working across the business. As a result, we were quick to implement remote working for all employees in a safe environment. We understood the challenges of working from home and balancing home schooling, shielding or caring for relatives. We made adjustments where needed, with a focus on ensuring we could make life easier, whilst still delivering for our customers.

We recognised that working from home could lead to increased household costs and incidental expenses, so we felt it was important to provide additional financial support, with each member of the team receiving a weekly allowance whilst they worked from home and our offices remained substantively closed.

We understood that working from home presented challenges around isolation and loneliness. Employee engagement was front of our minds, ensuring we maintained a strong connection with our people throughout. We provided extra support and launched our own wellbeing programme, called "Bringing Balance", that supported mental, physical and financial wellbeing. This included remote live yoga, relaxation

and meditation sessions, pension teach-ins and a popular "Time to Talk" virtual water-cooler chat each week. A full calendar of financial wellbeing as well as mental and physical health seminars unfolded.

To encourage fitness at home and more environmentally friendly travel ahead of re-opening our offices, we launched an employee "Cycle to Work" scheme, giving our team members generous discounts on new bicycles and cycling accessories, in addition to significant tax benefits for the employee via a salary sacrifice scheme. We also passed on the national insurance benefits that the Company would receive to our employees as a further reduction in the cost of a new bike.

Of significant importance has been making sure all of our employees have access to the right support network, not just for them but also for their families. All our employees have had access to mental health benefits and virtual support through our private medical insurance and employee assistance programmes.

Keeping the team connected

Going "overboard" on communication has been critical to keep the team connected. We embraced our Microsoft Teams platform, setting up regular group and team chats. We host a weekly Friday afternoon all employee call, typically attended by c75% of our team each week, which features business updates, quizzes, knowledge sharing and most recently "Meet our Customer" sessions.

We had some fun! We have hosted virtual social events, shared our favourite recipes, walked to Lapland (virtually) and enjoyed Christmas karaoke. We utilised our Facebook Workplace to keep each other updated on social matters, share news, boost morale and stay connected through humour.

Most importantly we looked out for each other!

Cultivating a workplace that celebrates differences

At DF Capital, we want our employees to feel as if they can be who they really



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At DF Capital, we want our employees to feel as if they can be who they really are and bring themselves to work every day

are and bring themselves to work every day. Our inclusion agenda stretches well beyond a focus on just gender. We feel we have a diverse workforce and want to be known for embracing diversity as a source of innovation, creativity, and ultimately competitive advantage. Although we are a small firm, we believe we have all the foundations in place to ensure, as we grow, that we build a diverse and inclusive environment where our employees feel they can fulfil their career ambitions regardless of their gender, sexual orientation, ethnicity, disability or social upbringing.

We make a big deal about Birthday's; everyone in the company receives a personal greeting card and gift from the CEO.

We participated in Mental Health Awareness week and launched "Talk Tuesdays", giving colleagues an opportunity to talk openly and confidentially to our trained Mental Health First Aiders on matters relating to stress, depression and anxiety.

We invited Stonewall, a specialist organisation, to come and talk to us about how the Pride movement began and the importance of the uprising for the LGBTQ+ community, which proved a powerful education in our continued efforts to create an inclusive and acceptance culture.

We celebrated Black History month by sharing stories and watching TedTalks to actively raise awareness and support the plight of community cohesion.

Recognising and rewarding our people

We know that having a strong reward and recognition culture can have a huge impact on not only how our colleagues perform, but how engaged they are. Our employee benefits stretch beyond a competitive basic salary, they include a non-contributory pension of 10%, death in service benefit, access to private medical insurance, income protection insurance, thirty days annual leave, gym membership and in normal times a performance related discretionary bonus.

We are proud to be a Living Wage Employer, providing all of our

employees with a salary that exceeds the minimum living wage as determined by the Living Wage Foundation, an hourly rate significantly higher than the National Minimum Wage.



We want our employees, regardless of their position, to feel empowered to make a real contribution and accordingly share in the firm's success. We believe having employees own part of the firm as shareholders will encourage the right culture and attitude to risk management, as well as a desire to provide our customers with excellent service. In June 2020, we granted each and every employee nil-cost option share awards, not only to recognise their contribution, but to aid retention and encourage high levels of performance.

For 2021, every employee has clear goals and objectives and will participate in an incentive or bonus scheme. Success is based on a balanced scorecard that aligns to the firm's financial performance, delivery of an employee's individual objectives, and an assessment of their attitude to risk management.

More details on the Group's approach to remuneration can be found in the Remuneration Committee Report on page 54.

Developing our people

We may be biased, but we believe we have a talented group of employees at DF Capital. Our recruitment strategy is designed to attract, develop and retain the best people in the industry, who will through their hard work help us fulfil our strategic ambitions. As a fast paced and growing firm, we provide great development opportunities for our

teams, through secondments, project work, real time training, coaching and feedback. As you would expect, we support professional qualifications and courses as well. In 2020:

- 15% of our workforce made internal career moves within the firm
- 20% of colleagues were cross trained
- 7% of colleagues were redeployed to other areas
- We have plans in place to launch LinkedIn learning for all employees in 2021, which gives access to a broad and deep library of 14,000+ courses with micro and in-depth learning that develop any array of skills, competencies and capabilities which will benefit the employee in their role but also the firm.

Managing risk well is how we do things

Good risk management is in everyone's DNA at DF Capital. As a bank, we believe that sustainable profitability and the success of our business model will be defined by how well we manage the risks the firm faces. Every employee understands the risks in their area, has opportunity to make improvements to our risk management approach and receives compliance and conduct training as a matter of course. We talk about managing risks, emerging risks and have a culture of continuous improvement. Our approach to risk management is a key component of how we recognise and reward our employees in addition to the delivery of personal financial and non-financial objectives and cultural behaviours.

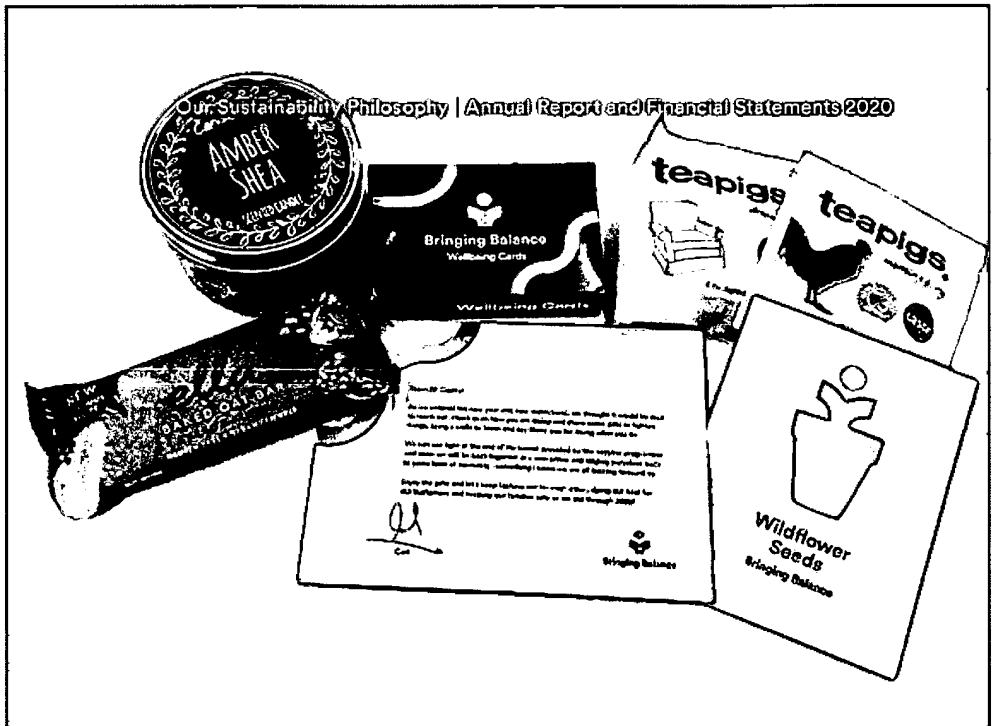
We listen to the team

We believe that great people, who are engaged and enjoy their work, will help us build a great business. Our teams work hard, so we want them to enjoy what they do. Listening to our employees and encouraging two-way communication is a discipline we have in place at DF Capital. In 2020, we asked our employees what it was like working at DF Capital through a Conduct & Culture Survey, conducted by Grant Thornton on our behalf. 97.5% of our employees participated in the survey and the scores they gave us, across all areas surveyed,

outperformed the 15 Financial Services sector benchmarks against which Grant Thornton calibrated us. Our colleagues told us we were especially great at...

- Encouraging them to do the right thing, by their colleagues, customers, and shareholders
- Working with and supporting local charities and they feel that is becoming a core part of our culture
- Ensuring processes do not compromise their core values and beliefs
- Having line managers that role model good values and behaviours
- Treating our suppliers fairly, in turn creating great partnerships
- Having a compelling and exciting story that they are proud to play a part of and share with the rest of the world
- Communicating important updates specific to the success and direction of our business
- Capturing and managing complaints to ensure we constantly drive towards great experiences for our customers

We also heard things we could improve on. Our employees would like us to remain focused on maintaining good work life balance, consider cultural impact as a measure of success when delivering change, reinforce the breaking down of silo's and encourage being part of 'one' team and getting stronger cultural alignment with suppliers and partners. This feedback now underpins the 2021 employee engagement plan.



“Being the employer of choice is about being a great place to work where career ambitions can be fulfilled and you feel truly valued for the role you play in the Company’s success”

Charlie Michael
Head of People



Getting it right for our customers

Delighting our customers is in our DNA

We've established a suite of lending and savings products to meet our customers' needs, each built with the common goal of delighting our customers and building loyalty.

The foundations of our proposition are:

- **Product and industry expertise** – we offer in-depth product and industry knowledge
- **Relationships** – we are a business built on relationships and understand our customers' needs on a deeper level
- **Agility** – we react quickly to support customer demand, deliver products and provide services
- **Technology** – we leverage technology to deliver our products so that it is easy to do business with us
- **Transparency** – we make our products, services and charging structures accessible and clear to understand whilst also being seen as offering great value

We ensure our employees understand what it takes to fulfil and succeed in their roles; all employees have a set of common and individual goals that align to the overall business purpose. They complete the relevant compliance and regulatory training but also operate within our policies and procedures so that we offer products suited to our customers need underpinned by the best levels of service. Our governance frameworks and committee structures monitor the performance of each of our functional teams to minimise any risks but also ensure we are delivering the level of service our customers expect of us.

Our approach to lending

From onboarding to drawing down loans, our customers transact with us

in a highly digitised way. We do believe that having a deep understanding of our customers, their needs and having expert knowledge in our lending products, delivers the best customer outcomes. Whilst transacting with us is digital and efficient, we are old fashioned in how we manage our relationships with dealers and manufacturers – we operate with a human touch. Our sector leaders build deep relationships and intimately understand our customers' businesses. Aside from the recent periods of lockdown, they spend most of their time visiting dealers and manufacturers for face-to-face meetings, supported by dedicated office-based relationship managers.

We recognise that no two customers are the same, so our approach to lending and the solutions we offer are configured to an individual customer's circumstances, financial performance, security position and ultimately their needs, whilst operating within a clearly defined credit risk appetite.

The impact of the global pandemic has required us to offer additional support to our lending customers. We have worked hard to be perceived as a patient, responsible and a supportive lender throughout. Our lending policies, approach to client audits and managing arrears and forbearance align to the principles of Treating Customers Fairly and the FCA's conduct rules.

During the first lockdown we provided forbearance where needed that allowed customers to reschedule principal repayments. c35% of our customers utilised this support, being granted at least one rescheduled repayment. This proved beneficial to customers, which in turn proved a positive influence on our arrears and impairment results for the year.

Offering great savings rates

As well as offering great savings rates, we recognised from the outset that our savings application process needed to be fast, efficient, and highly digitised. We wanted to make it easy to do business with us. With telephone-based support now in place and quick notification of deposits, our dedicated operations team is always on hand to help.

The team has been fully trained to support with care and empathy any vulnerable customers, who may need additional assistance when opening an account or managing their balance. Like all areas of the firm, we follow relevant Data Protection policies to keep our customer information safe.

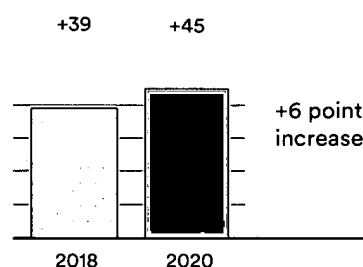
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Our governance frameworks and committee structures monitor the performance of each of our functional teams to ensure we are delivering the level of service our customers expect of us

Listening to our customers

We actively seek customer feedback. We complete an annual client satisfaction survey for our lending customers and use a “Net Promoter Score” as a measure of their overall satisfaction. We are well regarded by our dealer and manufacturer partners, receiving an NPS of +45 in our 2020 survey, exceeding many other comparisons across the SME lending sector. In 2021 we intend to measure satisfaction at touchpoints, what we call “moments of truth”. Additionally, in light of the pandemic, we have scheduled our annual NPS survey during the third quarter of the year. Our relationship managers and sector

Net Promoter Score



Measure of customer satisfaction on the basis of recommendation

commercial leaders are regularly in contact with our customers. We receive live feedback in many situations that helps us quickly respond to our borrowers' needs. The depth of customer relationship means that

many are open to sharing ideas or problems with us so we can look to build a solution. The launch of DF Choice in March 2021 was in response to feedback from our customers who wanted greater flexibility to design commercial terms that suit their circumstances at a point in time. DF Choice allows customers to adjust our fee structures by changing the effective advance rate of their loan against the wholesale price on of an asset. If they provide greater security, such as a lower loan to value, they can flex their fees downwards.

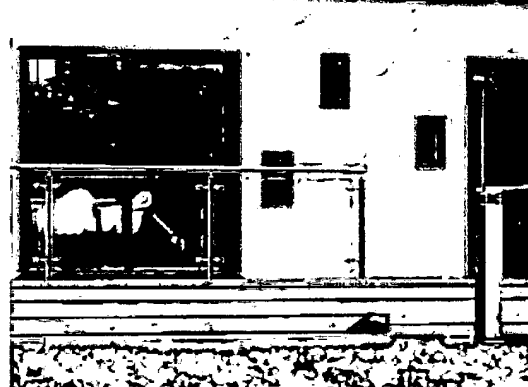
We have started to invite dealers and manufacturers to our Friday all employee virtual meeting, so that they can share what is happening in their business, their markets and what DF Capital can do better. It has provided valuable insight as well as tuning non-customer facing teams into our customer proposition and for them to better understand how they can help us deliver incrementally better service to our customers.

Once our savings customers have opened an account with us, they are asked to complete a feefo survey which provides us with feedback on our products and service. Since launching our maiden savings products in October 2020, we have received almost 1,000 reviews and have a feefo score of 4.3. This strong positive feedback saw us receive a feefo “Trusted Service Award” in January 2021. Customer feedback has been invaluable in helping us define how we can improve our proposition and offer even better service. We have responded to feedback already, improving the speed that deposits are applied to accounts and better notification of funds being received. We are also progressing the build of a self-service portal for our depositor customers.



Managing complaints

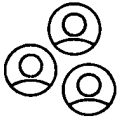
Despite our best efforts, sometimes things do go wrong. We have processes in place to deal with customer complaints and our employees are trained to handle complaints professionally and impartially, overseen by the Chief Operating Officer. We treat all complaints the same regardless of whether they meet the definition of a FCA reportable complaint or not. During 2020 we received 22 complaints of which 15 were upheld. None of which were referred to the Financial Ombudsman Service.



“Our customers have become used to us innovating. We innovate by listening to what they have to say. We look at problems through their eyes to find the best solution to help push their businesses forward, it’s a true partnership”

**Andy Stafferton
Chief Commercial Officer**





Getting it right for our communities

Our team is committed to giving back to its local community. Each year our employees select their chosen local charity of the year and as a bank which is headquartered in Manchester, we spent 2020 partnering with Wood Street Mission.

Wood Street Mission provides free, practical help to several thousand families in Manchester and Salford each year. Wood Street’s aim is to ensure that no child goes without whilst giving disadvantaged families the chance to break the cycle of poverty. Donations help Wood Street to provide essential goods such as clothing, bedding, baby equipment and school uniforms as well as treats of chocolate eggs at Easter and toys and gifts at Christmas.

Whether it was running and cycling the miles from Manchester to New York, or baking cakes, tossing pancakes, donating Christmas gifts or Easter eggs, the DF Capital team were behind Wood

Street Mission’s efforts. Not deterred by COVID-19, the team continued to raise funds throughout. As part of the Bringing Balance programme, the entire team participated in a virtual Christmas Walk (or hop, skip, cycle, or dance) from Manchester to Lapland. In total £5,500 was raised for the charity.

Looking forward to this year, our employees have chosen to support “Manchester City of Trees”, which is delivering a green recovery and tackling the climate emergency head on, through planting trees and restoring woodlands for the people and wildlife of Greater Manchester.

Our supply chain is being more carefully selected. We want to work with companies that hold similar values to us, that understand the importance of a Living Wage, respect the Modern Slavery Act, think about their communities and can help us create great experiences and outcomes for our stakeholders.

As we continue to develop our sustainability agenda and as lockdown eases, we intend to also provide greater support and engagement with voluntary organisations and schools across Manchester.



“We’re committed to giving back to our communities and playing a much greater role over the year ahead as we head out of lockdown. Our employees want to make a difference professionally but also personally. We have big ambitions relative to our size”

Charlie Michael
Head of People

Challenge completed!





Getting it right for the environment

We believe protecting the environment is a global mission and we have our own part to play in helping the UK reduce greenhouse gas emissions to net zero by 2050. As a branchless and highly digital bank, with cloud-based technology, we believe we help protect the natural environment by offering what is substantively a paperless and digital product offering. We have continued to enhance our processes throughout the year, removing unnecessary paper wherever we can.

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As a branchless and highly digital bank, we believe we help protect the natural environment by offering what is substantively a paperless and digital product offering

We implemented DF Check, our remote auditing tool, which allows our dealer customers to complete self-audits. This saves our own auditors many travelling miles per year and improves the overall efficiency of our audit team.

In our offices, we deploy energy saving and waste management practices. Our employees recycle waste, and we discourage excessive printing of documents. We have also decluttered our offices of storage to further deter printing.

We expect to play a bigger role and enhance our environmental credentials further. Our support of “Manchester City of Trees” as the firm’s charity of the year will see us assist its mission to restore woodlands across Greater Manchester. We will be also considering the impact of climate change on our business model as well as our own environmental footprint. In developing a wider climate change strategy, we will consider how we can incorporate climate change criteria into our lending products and credit criteria.

We have been proactive in looking for environmentally friendly and low CO2 emitting asset classes against which we can secure our lending products. We are delighted to partner with Harris Group, the sole distributor of MAXUS electric light commercial vehicles, supporting their dealer network with our lending products. Likewise, we are pleased to support the growth of Zero Motorcycles, a manufacturer of high-performance electric motorcycles. We expect to grow further our lending secured against electric commercial and personal transportation assets. (Case studies are provided on the following pages).

We are committed to finding ways to increase our lending with a greater number of innovative manufacturers and distributors of environmentally friendly products. We want to support good and viable businesses that share the commitment and passion we have laid out in our Sustainability Philosophy.



Manchester
City of Trees

“The climate agenda is front of our minds and that’s why we support innovative manufacturers with strong environmental credentials as well as doing our “bit” to help the environment and help lower CO2 emissions”

Carl D’Amassa
Chief Executive Officer

Case Study: Zero Motorcycles

Helping raise the visibility of Zero's high performance electric motorcycles in the UK

DF Capital has worked with Zero Motorcycles for the past two years and in that time has helped the business grow its dealer base, increasing its visibility in the UK.

Zero Motorcycles

Zero Motorcycles is a manufacturer of high-performance electric motorcycles, founded in California in 2006. Combining the best aspects of a traditional motorcycle with today's most advanced technology, the vehicles are lightweight and efficient and create a superior, silent riding experience for customers. Now very well-known internationally for both quality and performance, the company has a factory-run European HQ in the Netherlands, plus a growing presence in the UK where it is supported by a network of almost 20 dealers across the country.

What did Zero Motorcycles need?

Zero Motorcycles approached DF Capital as it needed a funder that could create a floorplan facility for all 18 dealers in its network and help it expand its presence in the UK. As a relatively new and small - albeit fast growing - business in the UK, it was a challenge to find appropriate financing.

How did DF Capital help?

By partnering with Zero Motorcycles, DF Capital created a funding solution for its dealer network, subsidised by Zero. The main element involves a 180-day cost-free period which means that if the dealer sells the bike within this time, all of the income generated is profit. If they don't, at the end of the cost-free period the dealer has the option to keep the bike on programme for up to 360 days in total for a monthly fee until the vehicle is sold. This allows the dealer certainty of minimal cash outflow whilst providing them with capacity to show, display and demonstrate a broader range of products, enabling them to sell more.

Results

Over the past year, DF Capital has provided £2m in facilities to Zero Motorcycle dealers. All 18 dealers are funded by DF Capital, on an exclusive basis, enabling the business to grow further, the dealers to improve their margins and make the brand more visible in the UK. The funding has also increased the number of demo units on show, enabling more potential consumers to try Zero's range of high-end electric motorcycles.

Zero said: "We have a great relationship with the team at DF Capital. They created a bespoke financing package with us for our dealers. We are particularly pleased with the creativity and flexibility demonstrated to our dealers over the past year. DF Capital understands our needs and the market, so everything that is suggested is relevant and appropriate to our business. Recently DF Capital introduced us to one of their contacts in Manchester who subsequently became our 18th dealer in the country. It's because of the true partnership approach that DF Capital operates that our business is going from strength to strength."

Case Study: Harris Group & MAXUS Commercial Vehicles

A dynamic partner for the Harris Group as it expands and evolves its business and delivers environmentally friendly LCVs

The Harris Group

The Harris Group is a leading importer and distributor of commercial vehicles for the construction, distribution and mass transportation industries. Founded in 1961 by a true visionary Pino Harris, it has a firm focus on technological innovation and the next generation of clean, sustainable motoring. Range, reliability, versatility, and quality customer service are at the heart of the brand, making it a firm favourite with business owners and fleet managers across the UK. As the sole distributor for the MAXUS range of vehicles in the UK and right-hand drive markets in Europe – both diesel and electric models - Harris Group delivers a significant number of vehicles every week to an extensive network of dealers. The launch of the eDeliver 9 and eDeliver 3, electric commercial vehicles has heightened its status as a market leader.

What did The Harris Group need?

The business, which is set to grow by over 200% in 2021, is recognised as one of the UK and Ireland's foremost distributors of commercial vehicles. Harris' reputation for greener motoring, in particular, has strengthened in recent years as it leads the charge in the electric vehicle sector. In a bid to make fleet and vehicle purchasing as affordable as possible for customers, The Harris Group partnered with DF Capital to create a funding solution for its dealer network, providing a financial link between the distributor and dealer, ensuring a seamless process.

How did DF Capital help?

DF Capital structured an inventory finance solution that supports the supply chain and funds the dealer network on delivery of the vehicles. The dealers then pay DF Capital when the assets are sold. This enables Harris Maxus to take orders knowing they will be paid immediately, easing cashflow and managing the financial risk. Equally the dealers also know that funding is guaranteed to them. All aspects are dealt with seamlessly and professionally, ensuring confidence across the supply chain.

Results

Over the past year, DF Capital has provided significant facilities to the Maxus Dealer Network operated by the Harris Group, enabling the business to grow further and get its industry-leading fleet of electric vans out to a larger audience.

Harris MAXUS said: "DF Capital is the exclusive distribution finance funder for MAXUS assets – both diesel and electric - across our dealer network. The DF Capital team worked tirelessly to ensure dealers' needs are understood and met. This is particularly important at a time when all eyes are on cashflow and there is a need to manage risk and monitor our capital outlay. DF Capital approaches business differently to other finance companies offering a more hands-on approach. Harris MAXUS and DF Capital have created a strong relationship, built on trust and support."





Getting it right for our shareholders

We are committed to effective engagement with our shareholders and providing adequate and accurate disclosure so that they understand our business and how it is performing. The Board regularly receives updates on shareholder meetings and the CEO and CFO look to engage on a frequent basis with larger institutional shareholders. We provided shareholders with a strategy update following the receipt of full authorisation as a bank in September 2020, alongside our interim results presentation.

Our approach to remuneration, particularly for executive management, is designed to align with key success criteria and the performance expectations of the wider shareholder base.

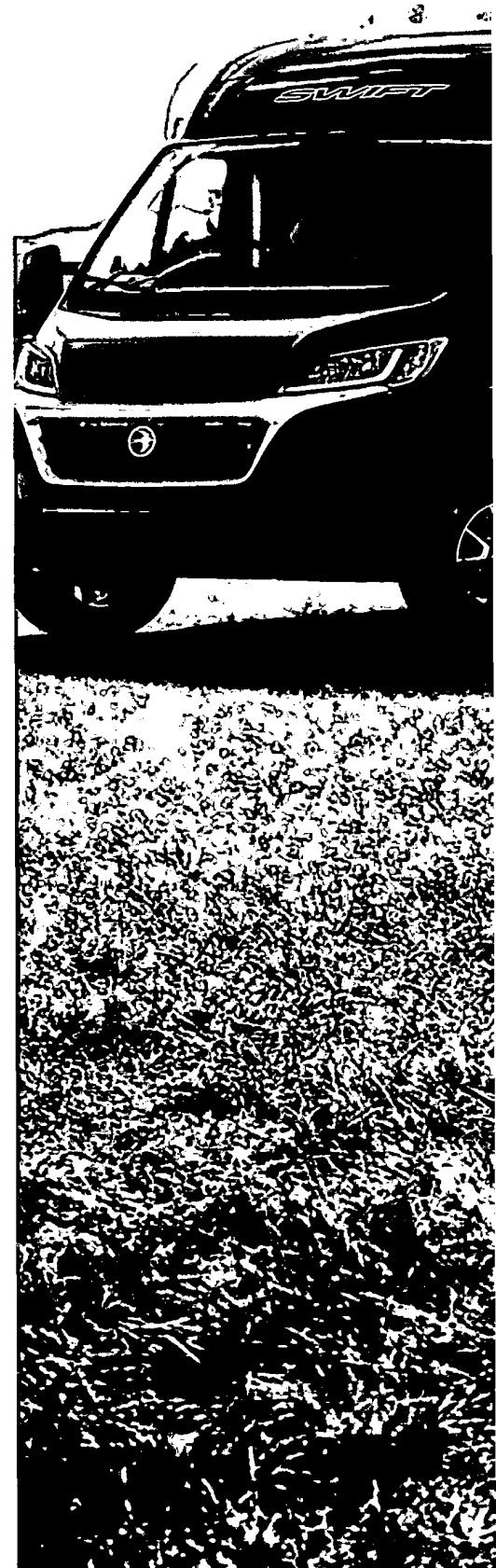
Ultimately, we believe that our Sustainability Philosophy, the culture that we create across the firm and how we deliver for our employees, our customers, our communities, and the environment unlock high quality financial performance and the best results for our shareholders.

“

We are committed to effective engagement with our shareholders and providing adequate and accurate disclosure

Developing our sustainability agenda

Whilst we have many strands of activity aligned to our sustainability agenda and have made good progress across several initiatives, we intend to continue to evolve our approach to sustainability, in line with our growth, increasing complexity and reach across more financial products, sectors and markets. We intend to turn our sustainability ambitions in to clear goals and objectives, where possible providing a quantitative assessment of our performance as well as qualitative commentary of the things we are doing to make a tangible difference.





“We are passionate about being good corporate citizens and our sustainability philosophy is built on doing the right thing for all stakeholders to deliver the financial performance our shareholders expect”

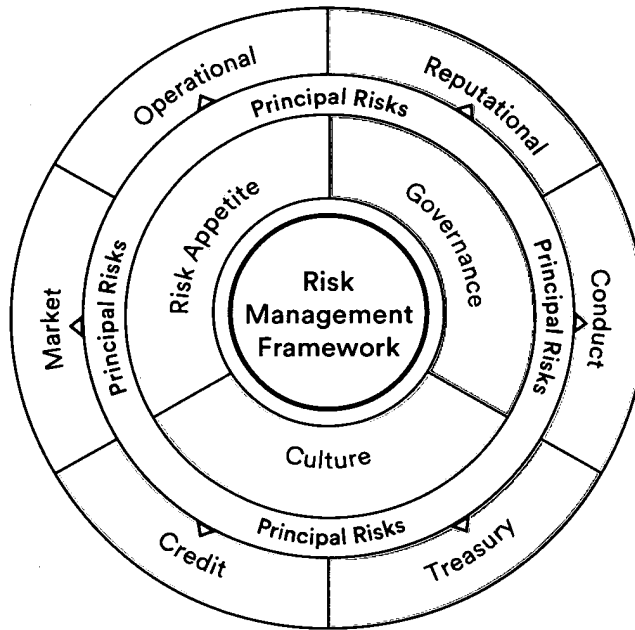
Carl D’Ammassa
Chief Executive Officer



Risk Management

Risk Management Framework

DF Capital follows a framework which outlines how we define and manage risks which are relevant to the Company’s business model and operations. This ‘Risk Management Framework’ (RMF) creates a structured approach and common language to support the day-to-day management of risks at DF Capital. The framework allows us to efficiently and effectively identify, measure, monitor and control risks in line with our governance, culture and risk appetite. We review this high-level framework document as and when needed and at least once a year. Where necessary we update the framework which may then lead to updates in our policy or governance processes to ensure that the new or amended approach for managing a current or new risk has been consistently implemented across the



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 vision 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, covering all staff, and to that end assess the effectiveness of DF Capital’s risk culture on a regular basis. In Q4 2020 we conducted our annual staff survey with a focus on culture and conduct. See the high-level findings from this exercise in the Sustainability Philosophy section of this report.

Risk appetite

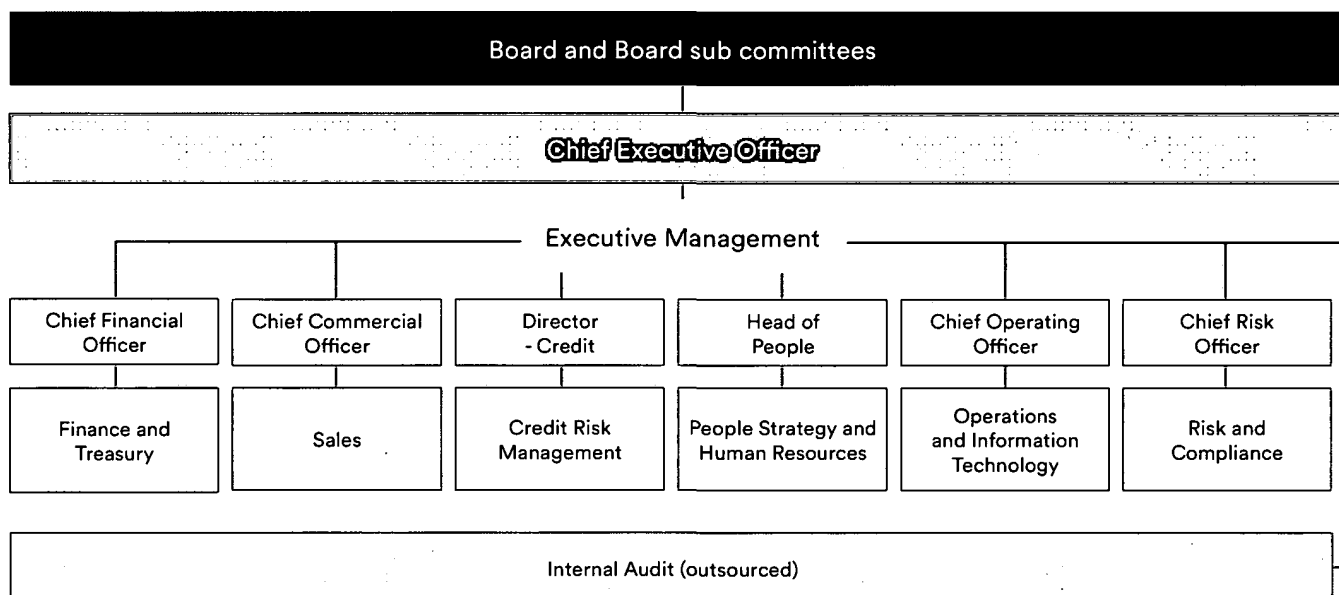
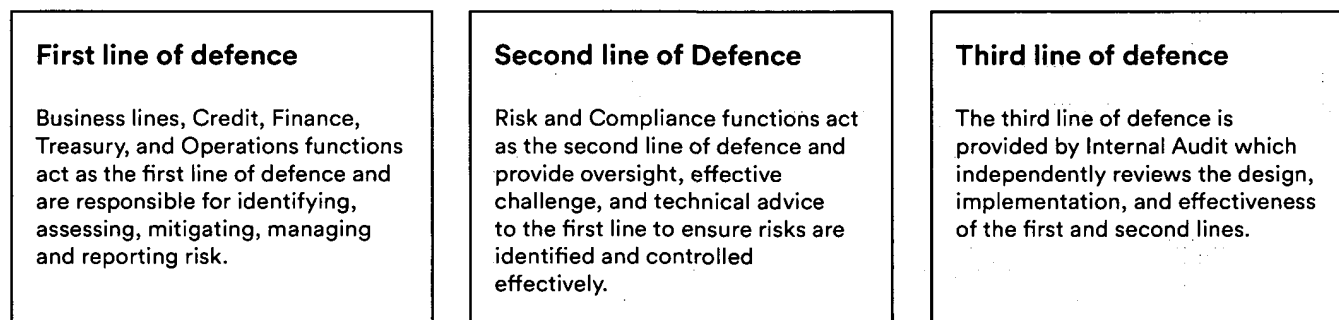
The Board has defined a risk appetite which sets the context and the boundaries for the Group’s activities and controls. It establishes the quantum and type of risks the Company is willing to accept. There is a formal framework in place which establishes the granularity, requirement, and responsibility 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 annual review by relevant Board or management committees.

Three lines of defence

The risk management framework 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 risk assurance.

This 3LOD model is a core component of risk governance at DF Capital as it provides clarity and accountability to individuals and functions across the Company.

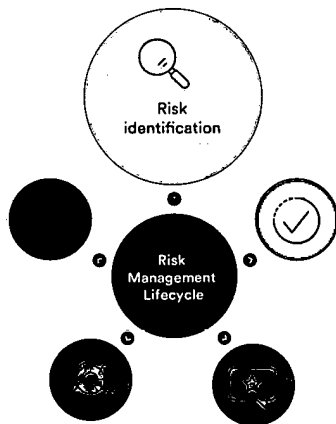


Incorporating climate change into our risk management framework

Our approach will develop over time, but at this stage, we have set out a plan to incorporate climate change risks into our Risk Management Framework during 2021. Firstly, we are conducting a risk assessment to identify both how our business activities (present and future) may be impacted by climate change, as well as to assess our own environmental footprint. Secondly, we will look to develop scenario analysis that takes into account different climate change paths to assess the impact of different scenarios on our business. This work will allow us to then outline DF Capital’s climate change strategy and risk management approach. We may, for example, review our credit policies to incorporate climate change-related criteria (e.g. energy ratings on our Lodge assets or fuel consumption and CO2 emissions on the Transport industry).

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) that might 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 became more likely to occur there is already a recognition of the Group's exposure to such risks.

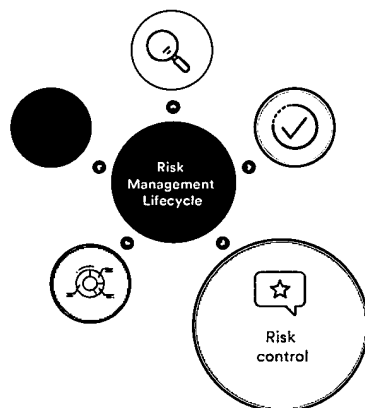


Risk assessment

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 assess 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

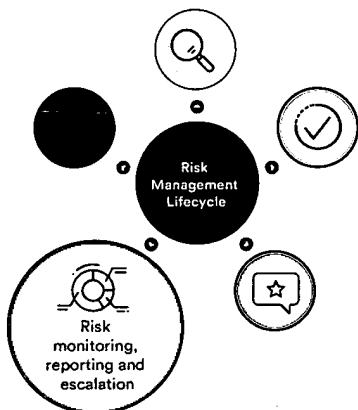
The collective of all the risk systems and controls within DF Capital is referred to as the Control Environment. DF Capital enables the Control Environment through the adoption of frameworks, policies, procedures, and systems which are monitored by the risk and compliance function, through the 3LOD model. 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

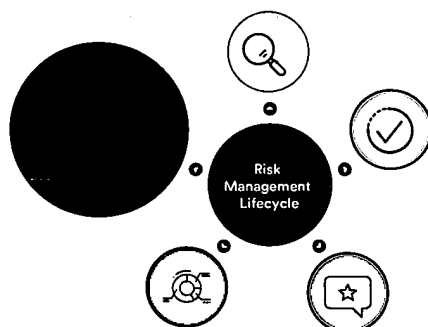
A risk report showing the main enterprise-wide key and emerging risks is discussed at Board and management risk committees on a quarterly basis. This exercise allows the committees to consider the top risks being faced by DF Capital alongside the associated risk mitigation actions from a top-down perspective.

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 – see below. 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 (“ICAAP”)

The 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.

The CFO has executive responsibility for the ICAAP, which is prepared at least annually, with review and challenge led by the CRO. More frequent ICAAP stresses can be run if external or internal factors change materially.

Individual Liquidity Adequacy Assessment Process (“ILAAP”)

The 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 led by the CRO. 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 evidence 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 COO with review and challenge led by the CRO.

Risk training




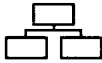





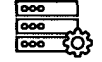








All employees are required to complete risk management and compliance training as part of new joiner training as well as regular refreshers thereafter. Risk and compliance training may vary depending on the role of the staff member (e.g. SMF role holder, Certified Function, functional manager, or customer-facing 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 and managing risk.

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
Non-Financial Risks	Operational Risk
	
	People
	
	Internal Fraud
	
	External Fraud
	
	Model
	
Third Party	
	
Business Continuity	
	
Physical Security and Safety	
	
Information Security (including Cyber)	
	
Technology	
	
Data Management	
	
Transaction Execution	
Reputational Risk	
	
Legal	
	
Regulatory Compliance	
	
Statutory Reporting and Tax	
	
Financial Crime	
Conduct Risk	
	
Customer Conduct	
	
Market Conduct	
	
Improper Behaviour	

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems errors, 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 Reputational risks, we believe it makes sense to separate these items out as individual principal risks due the importance of these risks given the Company's activities and regulatory environment.

Key risk mitigation tools: operational risk policies, standard operating procedures, Risk and Control Self Assessments ("RCSAs"), risk event analysis, Business Assurance Testing ("BAT" i.e. controls testing), ongoing monitoring of risk metrics and limits, scenario analysis, infosec and cyber defences, operational risk training, Operations Committee and Executive Risk Committee oversight

Reputational Risk is defined as the risk of loss or imposition of penalties, damages, or fines from the failure of the firm to meet its legal and regulatory obligations. 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. It also covers the Group's exposure to financial crime risks for which associated risk management policies and procedures are in place.

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

We define **Conduct Risk** as the risk of detriment caused to DF Capital's customers or wider financial markets due to inappropriate execution of its business activities and processes, including the sale of unsuitable products. Our Conduct Risk Framework outlines the Company's approach and process for ensuring good customer conduct outcomes. It is supported by specific policies on Product Governance, Market Abuse, Complaints, and Whistleblowing which detail the specific steps and responsibilities across the Company. The scope of conduct risk coverage also includes our AIM reporting and disclosure requirements.

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, BAT, Code of Ethics, conduct risk training, Executive Risk Committee oversight

Principal Risks (cont'd.)

Risk Type

Principal Risks

Financial Risks

Credit Risk



Client Default



Credit Concentration



Repurchase



Security



Counterparty

Treasury Risk



Capital



IRRBB



Funding and Liquidity

Market Risk



Market Risk

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

- **Client Default Risk:** The risk of loss arising from a failure of a borrower to meet their obligations under a credit agreement.
- **Credit Concentration Risk:** The risk of loss due to the concentration of credit risk to a specific customer, counterparty, geography, or industry.
- **Repurchase Risk:** The risk of loss arising from the failure of a third-party to meet a claim under a repurchase agreement.
- **Security Risk:** The risk that an asset used as security to mitigate a credit loss does not provide the protection to the Company that is expected, leading to unanticipated losses.
- **Counterparty Risk:** The failure of a bank counterparty or derivative provider.

A number of risk policies are in place setting the key risk controls and covering the roles and responsibilities of 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

Treasury Risk covers three types of risks relating to the bank maintaining sufficient financial 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.
- **Interest Rate Risk in the Banking Book ("IRRBB"):** The risk of financial loss through un-hedged or mismatched asset and liability positions due to interest rate changes.

Roles, responsibilities, and requirements with respect to Treasury Risk management are outlined in relevant treasury management policies, with the setting of risk appetite further supported by the firm's regulatory documents (ILAAP and ICAAP).

Key risk mitigation tools: treasury policies, ICAAP, ILAAP, additional stress testing, ongoing monitoring of risk metrics and limits, financial planning and forecasting, monitoring of external environment, ALCO and Executive Risk Committee oversight

We define **Market Risk** as the financial risk deriving from exposures to movements in market prices of trading assets and liabilities. DF Capital does not have trading books and any investments as part of liquidity buffer management are in sovereign bonds, held in the banking book. Interest rate risk is covered under IRRBB (under Treasury Risk). The Group has no exposure to foreign currencies. The Group currently does not have any appetite to run market risk.

Enterprise-wide Key and Emerging Risks

DF Capital identifies and monitors enterprise-wide risks on an ongoing basis. At least once a quarter, management perform a review of current macroeconomic conditions and forecasts, an assessment of the key internal and external risks facing DF Capital, and a horizon scan for emerging risks. This exercise includes a review of the management actions in place or required to mitigate the key risks identified, providing a link between risk management, business strategy and financial planning, at a company-wide level. This work is presented and discussed at the Board Risk Committee, as well as at Board-level.

The table below summarises our view of, and management response to, the most material risks facing DF Capital, as assessed by management and the Board.

Risk title <i>Principal Risks which are primarily impacted</i>	Risk overview and mitigation actions	Overall risk assessment
UK Recession / COVID-19 / Lockdowns <i>Credit, Treasury</i>	<p>It has been well publicised that the UK economy shrank by a record 9.9% in 2020. However, the unprecedented size and scale of support provided by the government has prevented an otherwise certain increase in loan losses. The challenging economic environment has continued into 2021 with yet another national lockdown. The success of the vaccination rollout is the key determining factor in how rapidly the economy recovers. We remain vigilant of signs of deteriorating asset quality, keeping a close eye on the potential latent impact on credit losses of the eventual unwind of the various COVID-19 support measures.</p> <p>The challenging economic environment meant that DF Capital faced significant funding challenges for most of 2020 driven by a tightening of risk appetite on the part of the Group's wholesale lenders. As a result, for most of 2020 the firm had to put in place enhanced monitoring of its financial position including a rolling set of liquidity and solvency analysis and stress testing. This situation eased in Q4 2020 once the firm, now as a bank, was able to refinance its balance sheet with retail deposits and repay all wholesale liabilities.</p> <p>DF Capital's industry focus has proved to be a positive, natural mitigant to the COVID-19 crisis. Our Leisure sectors in particular performed positively throughout 2020. During last year and into 2021 we kept our focus on careful portfolio management. This has included a flexible approach to asset audits, which included the addition of a new technology solution which allows us to audit assets remotely ('DF Check'), with greater focus on physical audits around periods after lockdown measures are lifted (i.e. when asset sales are most volatile). Plans to launch new lending products remained on hold during 2020 and into 2021. The capital raise completed in early 2021 also positioned the firm with a significant capital surplus.</p>	High for most of 2020 but currently rated as Moderate
Assets sold out of trust ('SOT') <i>Credit, Operational</i>	<p>When customers sell assets which are financed by DF Capital but fail to settle their loan as per the agreed contractual terms this creates a situation we term as "sold out of trust" ('SOT'). This is a key component of our Credit Risk exposure and one to which we dedicate significant risk management attention. Depending on the circumstances of the sale, when an asset is SOT, DF Capital can incur the risk that our exposure becomes unsecured and therefore exposed to higher losses in a default scenario. In extreme cases, the sale of an asset out of trust can take place as a means of fraud. The economic challenges created by COVID-19 have exacerbated our exposure to this type of risk due to the difficulty around conducting physical asset audits during lockdowns, procedural delays due to staff shortages at some customers given the use of furlough schemes, and the risk of an increased propensity for intentional SOTs among potentially financially constrained customers.</p> <p>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 have also implemented a market-leading, innovative, and automated remote audit solution ('DF Check'). In addition, we monitor a number of SOT risk indicators on a daily basis (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.</p>	Moderate

Operational execution and change <i>Operational, Conduct</i>	<p>As a young, growing firm we remain exposed to the operational risks deriving from a fast pace of change in systems, processes, and people; a significant, albeit declining reliance on 'manual' processes; and our maturing control environment. The COVID-19 outbreak added pressure to this risk given the various process adjustments necessary to deal with the lockdown, particularly given the closure of our offices and of most of our clients' offices during lockdowns, and the consequent remote working of the majority of our staff for most of 2020 and into 2021.</p>	Moderate
	<p>After successfully launching our retail deposit products in Q4 2020, a key next step in our bank journey is the development and launch of an online banking platform during 2021. The delivery of this project carries both operational and conduct risks, with a need to ensure an adequate transition into the new channel and a seamless customer experience.</p>	
	<p>We regularly review our change and technology roadmap which includes further improvements and automation of our operations and controls. This is supported by regular risk and compliance reviews, business assurance audits, and risk event reporting and back-testing. DF Capital follows a completely cloud based service and AWS infrastructure model, adopting SaaS technology from a number of suppliers which are reviewed and contracted under appropriate due diligence and risk assessments. The same approach is being following for the development and implementation of our online banking solution.</p>	
Cyber risk <i>Operational, Conduct</i>	<p>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 implications such as inability to conduct business operations or loss of customer data. Cyber deficiencies also often give rise to severe reputational damage.</p>	Moderate
	<p>DF Capital aims to ensure proportionate best in class cyber defences with an approach based on the five components of cyber security management as defined by NIST – identify, protect, detect, respond, recover. Live monitoring of systems and networks is in place, with cyber-specific risk indicators reviewed regularly by senior management and the Board. DF Capital operates under an annual Cyber Security Plan, which includes tests performed internally and by third parties.</p>	
Near-term growth plan <i>Treasury</i>	<p>The still challenging and uncertain macro environment creates a degree of downside risk to the successful achievement of the firm's strategic objectives and near-term growth plans, including the target of reaching run-rate profitability during 2021. Failure to meet growth targets would impact profitability and capital. It could also impact the firm's reputation and stakeholder confidence in the business model and strategy.</p>	Low
	<p>Our growth targets are backed by a pipeline of asset volume assessed against manufacturers' order books and direct dealer relationships. Delivery against this pipeline is monitored regularly through various commercial KPIs, reported up and down the company. We remain focused on improving our customer offering (eg recent launch of DF Choice). We are also stepping up our marketing and PR efforts to widen the reach of the DF Capital brand. Whilst the firm's plan is to focus on our existing product suite during 2021, we will start developing strategies during this year to launch new products, up and down the supply chain, as we look to further support UK dealers and manufacturers.</p>	
Climate change <i>Credit, Operational, Reputational</i>	<p>DF Capital is exposed to both the transition and the physical risks arising from climate change. An accelerating trend towards electric vehicles, for example, is already evident in some of the industry segments in which DF Capital operates. Climate events are likely to result in a growing risk of damage to physical assets funded by DF Capital (e.g. flood risk).</p>	Low
	<p>We are currently conducting a comprehensive review of our exposure to climate change risks, from both within our own operations as well as our commercial lending exposures. Our intention is to establish a clear climate change strategy and risk appetite during 2021. To that effect we are staying close to industry and regulatory developments with respect to climate change. We are also staying engaged with dealers and manufacturers 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.</p>	

Table notes: The overall risk assessment is a function of three components assessed individually for each risk – potential impact, probability/proximity, and capacity to manage.

Our view of these and other emerging risks is constantly evolving. The views expressed above reflected the position as of end-2020, updated to encompass more recent developments, namely with respect to the continuously evolving macro environment and the COVID-19 situation, and our growth plans on the back of a successful equity raise in February 2021.

Corporate Governance

Corporate Governance at DF Capital



John Baines
Independent Chairman

“

Corporate governance and a good culture start at the top of any company

Dear Shareholder

I am pleased to introduce this year's corporate governance report, our first as a fully authorised bank. The Board of Directors (the “Board”) is committed to high standards of corporate governance, details of which are set out in this corporate governance report.

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.

Corporate governance and a good culture start at the top of any company and the Board and the Executive Committee together are driving the values, behaviours and attitudes that support the Group's strategy. The Board is accountable to its shareholders and other stakeholders for the structures and management of its operations to deliver against its strategic vision.

John Baines
Independent Chairman

Board of Directors

Key:

-  Board Risk Committee
-  Board Audit Committee
-  Remuneration Committee
-  Nomination Committee
-  Committee chair

Chairman



John Baines
Independent Chairman

Committees:

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John has over 30 years of experience in the banking industry following qualification as a chartered accountant. John was formerly Chief Financial Officer (CFO) of several UK banks, including Co-operative Bank, Aldermore and Coutts and Co. John has a wide variety of business experience in both UK and overseas businesses, including retail banking, SME, wealth management and investment banking.

Principal external appointments:

Bank of Ireland (UK) Plc, State Bank of India (UK) Limited and Interactive Investor Limited.

Non-Executive Directors



Mark Stephens
Senior Independent
Non-Executive Director

Committees:

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Mark has over 30 years of experience in UK banking across a wide range of functional areas. Mark was formerly the Chief Executive Officer (CEO) of Allica Bank and prior to that Harrods Bank. Mark prior to this was deputy CEO and one of the founders of Aldermore.

Principal external appointments:

Crowd Property Limited.



Carole Machell
Independent
Non-Executive Director

Committees:

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Carole held a series of executive positions at Barclays until changing to a portfolio career in 2016. Prior to joining Barclays, she spent 8 years at JP Morgan in a range of Operations, Technology and strategic roles. She was also Managing Director of OMLX, the Swedish Derivatives Exchange and worked at Merrill Lynch. Carole is a qualified chartered accountant (ACA).

Principal external appointments:

Weatherbys Bank Limited, Sainsbury's Bank Plc, London Clearing House (LCH Limited & LCH S.A.).



Thomas Grathwohl
Independent
Non-Executive Director

Committees:

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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.



Stephen Greene¹
Non-Executive Director

Stephen has an investment banking, investing and capital markets background, previously holding positions at Keel Harbour Capital Limited, Arrowgrass Capital Partners, RMG Wealth Management, ACPI Investments and Deutsche Bank before transitioning into more technology focused roles, particularly within financial services and artificial intelligence. Stephen is currently Managing Director of Orsus Ventures Limited and serves as a Non-Executive Director of TruFin plc. He has a Money, Banking and Finance degree from the University of Birmingham and is a Chartered Financial Analyst (CFA) charterholder.

Principal external appointments:

Orsus Ventures Limited, TruFin Plc.



Haakon Stenrød¹
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.

Executive Directors



Carl D'Ammassa
Chief Executive Officer
(CEO)

Carl has more than 20 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 Chairman 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 possesses over 25 years of financial services experience across banking, corporate lending and leasing. 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 was involved in both the set up and dismantling of GE Capital Bank. Gavin is a qualified chartered accountant and spent 10 years with KPMG.

Company Secretary



Tim Maw
Company Secretary

Tim is a Chartered Company Secretary with 19 years experience in a range of FTSE-100 and FTSE-250 companies across a range of industries including financial services, oil and gas, industrial automation and construction and housebuilding. Tim joined DF Capital in March 2021 and attends all Board and Committee meetings of Distribution Finance Capital Holdings plc and its subsidiary, DF Capital Bank Limited.

¹ 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.

Corporate Governance Framework

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. One of the independent non-executive Directors has been selected by the Board to be

the Senior Independent Director. The Board is fully satisfied that the Senior Independent Director demonstrates complete independence and robustness of character in this role. The Senior Independent Director is available to meet shareholders if they have concerns that cannot be resolved through discussion with the Chair or for matters where such contact would be inappropriate.

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 an approved framework on limits of authority.

Board meetings

DF Capital's Board meets no less than ten times a year and its 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 papers and reports on the issues to be discussed at the meeting. In addition to Board papers, directors are provided with relevant information between meetings. The chairs of each committee provide a verbal update at the Board meeting of committee work undertaken since the last meeting.

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 & Risk Committee.

The Board has regular scheduled meetings. During the year there were 10 scheduled Board meetings. As and when the need arises, additional meetings are held to deal with any specific time-critical business matters. In 2020, 14 ad hoc meetings were called to deal with matters including the capital raise, the process of the banking license applications, and postponement of the AGM. Directors' attendance at Board and committee meetings is detailed in the table on page 52.

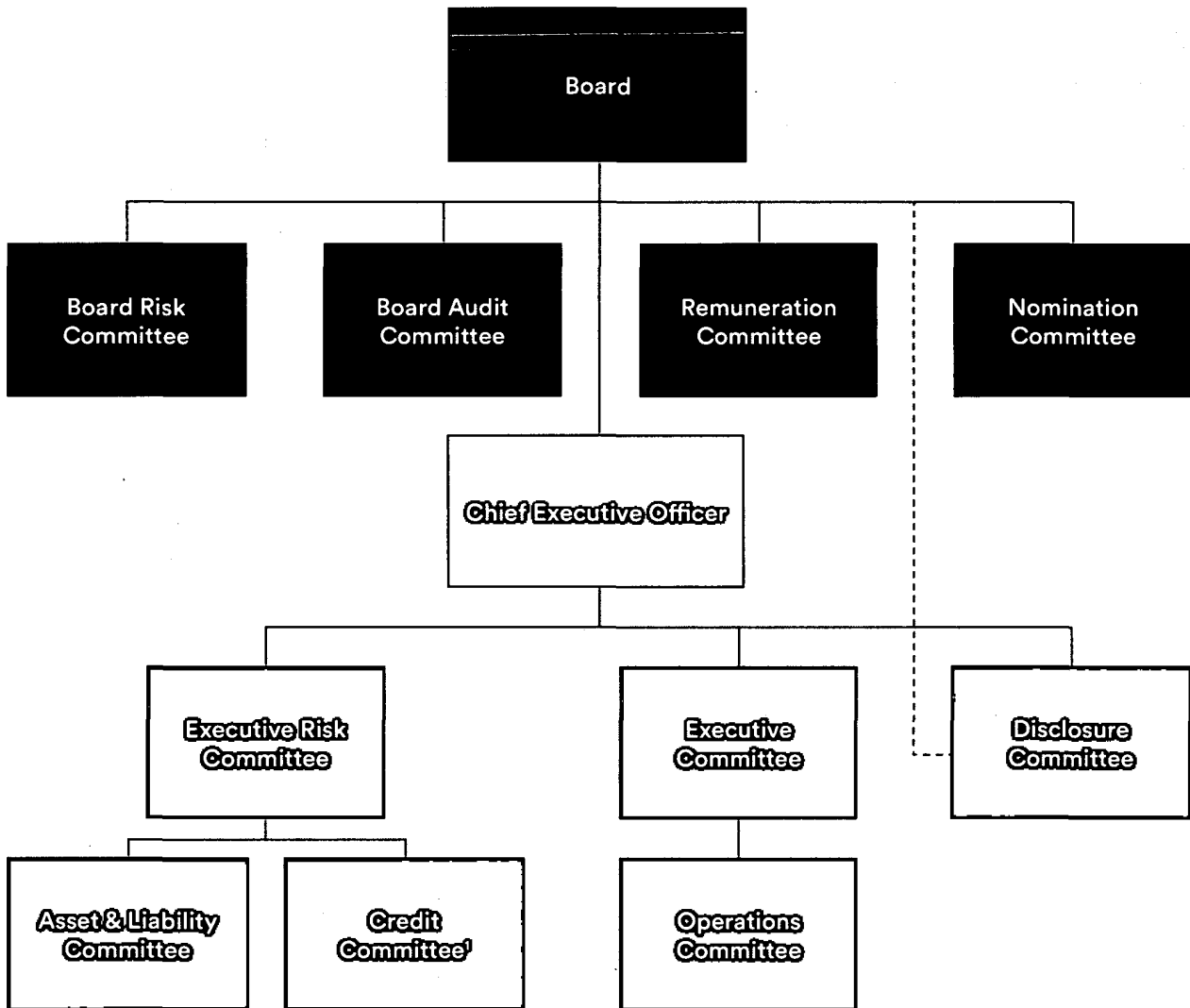
Board balance and independence

The Board consists of four independent Non-Executive Directors, two Non-Executive Directors, two Executive Directors and its Company Secretary and is chaired by an independent non-executive director. Biographical details of each Board member can be found on pages 48 and 49.

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 an equilibrium of independent and non-independent directors in the interests of balance and good governance, and in accordance with relationship agreements entered into with our major shareholders, as disclosed in DF Capital's listing documents.

The PRA issued guidance on 15 April 2021 on its approach to regulation of new and growing non-systemically important banks. This guidance, amongst other things, lays out the regulator's expectations in relation to Board composition and overall independence, which we intend to consider during the coming year, alongside the current Board composition and the firm's strategic growth plan.

Corporate Governance Structure



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 55
- Board Audit Committee - page 59
- Remuneration Committee - page 63
- Nomination Committee - page 67

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 70
- Executive Risk Committee - page 70
- Operations Committee - page 71
- Asset and Liability Committee - page 71
- Credit Committee - page 72
- Disclosure Committee - page 72

Key:

- Board and Board sub-committees
- Management committees

¹ In place from March 2021

Attendance at meetings

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

	Board	Risk	Audit	Remuneration ⁶	Nomination
Number of meetings held^{1,2}	24	7	10	7	2
Independent Non-Executive Directors					
John Baines (Chair)	24	7	10	6	2
Carole Machell	23	6	10	7	2
Mark Stephens	24	7	10	7	2
Thomas Grathwohl	24	7	10	7	2
Non-Executive Directors					
Stephen Greene ³	17 (17)	-	-	-	-
Henry Kenner ^{4, 5}	5 (5)	-	-	-	-
Haakon Stenrød ³	17 (17)	-	-	-	-
James Van den Bergh ⁵	2 (5)	-	-	-	-
Executive Directors					
Carl D'Amassa	22	-	-	-	-
Gavin Morris	24	-	-	-	-

¹ Eligible to attend given partial service during the year or any appropriate conflicts of the relevant directors.

² 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.

³ Appointed on 13 May 2020

⁴ Henry Kenner was interim CEO between 3 November 2019 and 1 April 2020

⁵ Henry Kenner and James Van den Bergh resigned from the Board on 13 May 2020

⁶ In addition to the scheduled and ad hoc meetings, two further matters were approved by email circulation of written resolutions.

The figures in brackets indicate the number of meetings eligible to attend given the partial service/any appropriate conflicts of the relevant directors.

Board effectiveness

The effectiveness of the Board is the responsibility of the independent non-executive chair. Board performance is reviewed annually.

Grant Thornton completed an independent external effectiveness review of the Board in Q4 2020, led by the Senior Independent Director. The report concluded that the composition and size of the Board and its Committees is considered appropriate and its operation by Board members is effective. Board members have deep experience and commitment, and work in a collaborative manner with each other and executive management. The Group has built a substantial governance structure and framework to support appropriate governance of the Bank and Board, and the Board is adhering to the principles of the QCA Corporate Governance Code.

A number of improvements were identified in relation to the support provided to Board members and the associated administrative activities of Committees, which could further improve the effectiveness of the Board. The Group has an action plan in place which will see these improvements implemented during the current year.

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 ("ToR"), setting out the committee's roles and responsibilities. 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.

The committee structure is shown on page 51, 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.

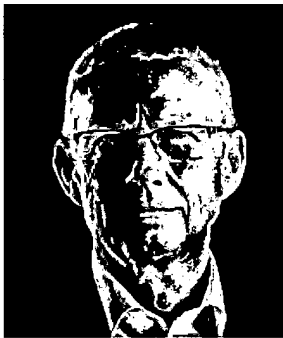
Stakeholder engagement

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 76 to 78 of this report.

Key topics discussed by Board

Topic	Activity
Business Performance	<ul style="list-style-type: none"> • Bank and non-bank scenarios • PRA authorisation process • COVID-19 response • Retail savings updates • Wholesale funding strategy • PR plan • Brexit planning considerations
Financials (eg. budgets)	<ul style="list-style-type: none"> • COVID-19 impact assessment • ICAAP & ILAAP stress scenarios • Management rep letter • Risk appetite metric recommendations • PRA capital and liquidity letters • Financial projections • Interim results update • Loan early repayments • SCV effectiveness report • Repayment of of wholesale funding and TruFin loan
Investor Relations	<ul style="list-style-type: none"> • Updates
Governance	<ul style="list-style-type: none"> • AGM arrangements
Risk Management	<ul style="list-style-type: none"> • Takeover training for directors • Approval of insurance policy • Large exposure limits • Credit policy • Risk Appetite policy • Authorisation action plan • Risk event reviews • 3LOD reorganisation and operating model
Strategy	<ul style="list-style-type: none"> • Registered office change and Manchester office relocation • COVID-19 impact • Contract reviews
Technology	<ul style="list-style-type: none"> • Online commercial customer portal review • Online savings self-service updates
People	<ul style="list-style-type: none"> • CEO appointment • NED appointments

Risk Committee Report



Mark Stephens
Senior Independent
Non-Executive Director

Chair of Risk Committee

“

The Committee is responsible for ensuring that the Group’s operations are supported by a comprehensive and proportionate Risk Management Framework

Dear Shareholder

I am pleased to present to you the report of the Board’s Risk Committee. Whilst DF Capital received authorisation as a bank on 29 September 2020, we have for some time been running the Group as if we were already a bank. Many of the policies and frameworks we have in place have been designed and implemented with our ambitions to become a bank in mind. The Committee is responsible for ensuring that the Group’s operations are adequately supported by a comprehensive and proportionate Risk Management Framework. The Board has responsibility for ensuring the promotion of a robust risk culture across the firm, setting a clear “tone from the top”, delegating the oversight of this to this Committee.

Given the economic uncertainties and the number of firm-specific challenges caused by COVID-19, the Committee has had a full agenda through the pandemic, holding a thorough programme of meetings and challenge sessions. Whilst the Committee’s role is to robustly challenge the Group’s performance against the Board defined risk appetite, provide oversight of the firm’s approach to risk management and mitigation of those risks, this year we have needed to be highly responsive in addressing items and topics raised by our regulators in consideration of the Group’s banking licence application.

The Committee tries to strike a pragmatic and commercially realistic balance between prudent risk management and the fulfilment of the Group’s strategic ambitions, whilst ensuring effective control is maintained across all the Group’s principal risks.

Monitoring of risk appetite

The Board has a well-defined risk appetite that is laid out through the risk management framework and associated policies. Internal control, risk management systems and the monitoring of key performance and risk indicators ensure that the Group operates inside of the Board’s risk appetite, with triggers and limits laid out across all principal risks. In addition, the Committee considers qualitative insights when assessing the Group’s approach to operational and conduct risk as well as compliance.

The Committee has monitored the performance of the Group through the period in the context of the economic uncertainties, the Group’s stated growth ambitions and the evolving regulatory environment, both as a non-bank and prospective bank.

Liquidity and solvency

Considering the reaction of the Group’s wholesale lenders to the pandemic, the Group faced significant funding constraints, which alongside the unfolding economic impact of COVID-19, led to the Directors identifying a material uncertainty to the Group’s ability to continue as a going concern. Through much of 2020, the Group had minimal liquidity to support lending and operating expenditure, with much of its capital locked in loans held within the wholesale funding facility. This situation required management to produce rolling liquidity and solvency analysis, stressing testing against various down-side scenarios to identify management actions. The Committee actively challenged this analysis, provided additional insight into the stress scenario design and ultimately approved the plans. Much of this analysis and scenario planning was shared with the regulators as a refresh and update to the materials that supported our licence application in August 2019.



The BRC is chaired by a Senior Independent Non-Executive Director (“INED”).



The BRC meets on at least a bi-quarterly basis.

As part of the process, the Committee considered and approved COVID-19 driven scenarios, as addendums to the Group's Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP"). Additionally, the Committee considered and approved an updated solvent wind-down plan, a pre-licence request by the PRA.

Credit risk

The Committee has continued to monitor the performance of the Group's loan book both on a current and forward-looking basis using credit bureau information and internal risk ratings. The Committee considered and approved updates to the Group's credit policy and completed sector specific reviews that laid out nuances of each sector, performance of the respective sector cohorts and alignment of the commercial strategy to the Group's risk appetite.

Working with Board Audit Committee, the Committee considered the risk elements of the Group's approach to IFRS9 impairment accounting, challenging and approving the methodologies that underpin the Group's loss given default and probability of default assumptions. The Committee reviewed hindsight and "lessons learned" reviews in relation to cases where default had occurred, challenging management on areas for improvement.

Review of three lines of defence

As a newly authorised bank, with ambitions to grow, we are regularly reviewing our approach to risk management and considering how we can evolve and improve the effective management of risk across the firm. Management, supported by the Board, initiated a review of the firm's Three Lines of Defence approach to the taking, management and oversight of risk. With the support of independent external advice, the Group determined that several enhancements could be made to better delineate the Three Lines of Defence, specifically in relation to the Risk Team and those who are charged with taking risks and those who oversee the firm's principal risks within that team. A new organisational design

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 the Company's overall risk appetite, tolerance and strategy, and the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives. It assesses the likelihood and the impact of principal risks materialising and their management and mitigation to reduce incidence or impact. It considers the risk aspects of proposed changes to strategy and strategic transactions, and ensures compliance with legislation, regulation and internal policy. It is also responsible for the management of assets and liabilities, including liquidity and funding and capital management, the lending portfolio and associated credit policy (including the credit risk policy), and has oversight of all matters arising out of Company operations, together with responsibility for the Company's ethical and business standards.

Key responsibilities of the BRC include:

- 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 and discuss with the Chief Risk Officer the key risk issues, including how management are addressing them and the effectiveness of systems and controls for risk management;
- Review adequacy of risk and compliance resource and its authority and standing within the Company;
- 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
- 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.
- Overseeing the development, implementation and maintenance of the Company's overall risk management framework including its risk appetites, principles and policies;

has been implemented, which has seen the Group invest in specialist resources and transition to a renewed operating model through the first half of 2021. The Committee feel that management’s proposal strikes an appropriate balance and will provide a solid foundation on which the firm can scale its ambitions under appropriate risk control.

Chief Risk Officer

Desmond McNamara, the Group’s Chief Risk Officer, shared his intention to retire with us as we headed towards the end of the financial year. Desmond left the Group on 28 February 2021. On behalf of the entire Board, we would like to extend our gratitude to Desmond for his contribution to the Group. Effective 1 March 2021, which remains subject to regulatory approval, Tomas Oliveira da Silva was appointed Chief

Risk Officer and is responsible for the newly defined Risk Oversight function, also known as the Second Line of Defence. Tomas joined the Group in November 2019 and brought with him significant prudential risk experience, having previously held positions at the PRA. We are delighted to have been in a position to promote from within to fill this key position.

Remuneration matters

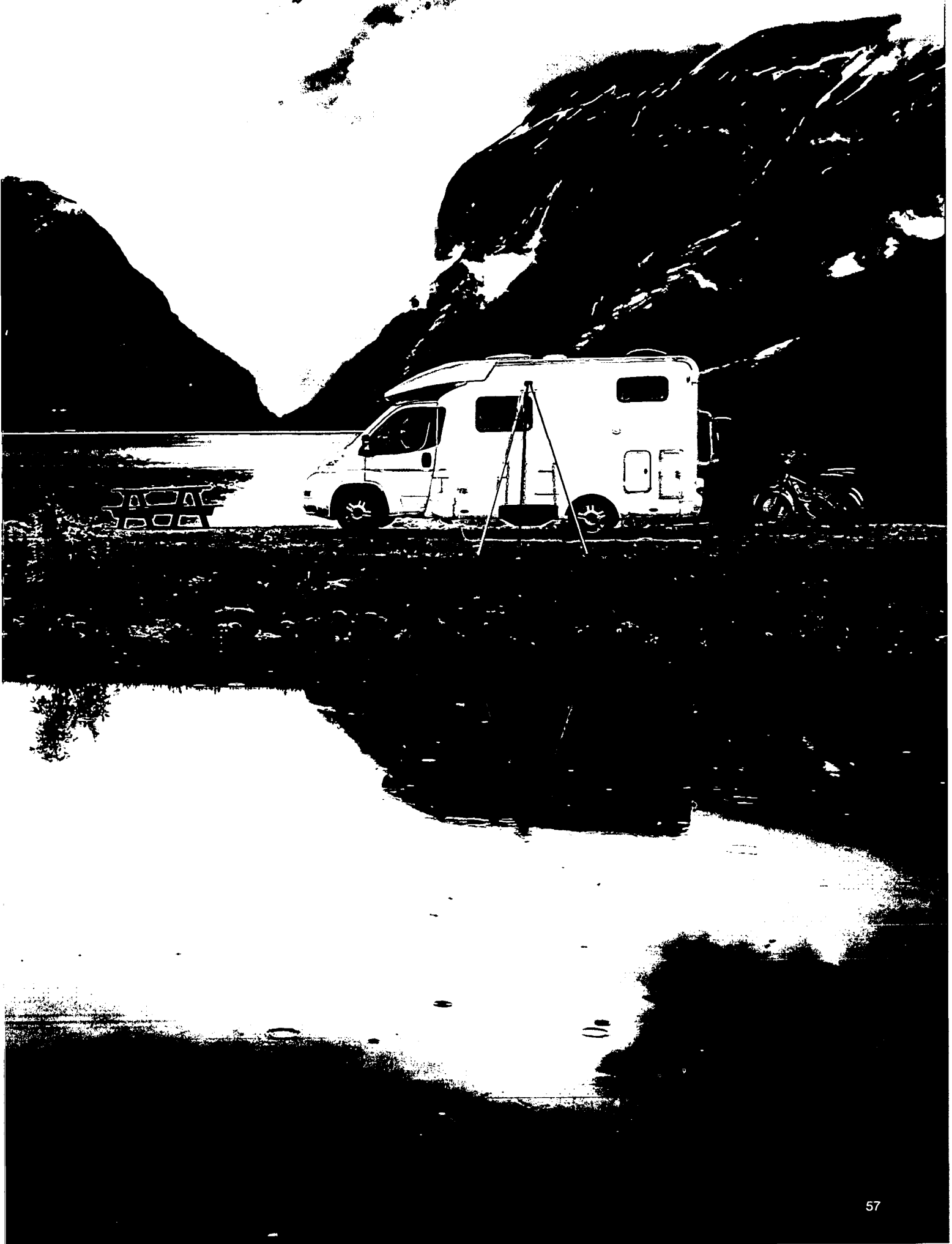
The Committee has a key role to play in advising the Remuneration Committee regarding the design of variable pay to ensure that any incentivisation does not encourage the taking of undue risk. Committee members provided input to the firm’s 2021 incentivisation plan, which laid out the Group’s approach to variable pay for all of its employees. Executive management, senior leaders

and more junior employees have clear performance objectives that align to their individual approach and attitude towards risk management alongside the firm’s overall performance falling inside of the Board’s risk appetite. The economic environment remains uncertain and accordingly the Committee keeps under review the emerging risks that could have an impact on the Group. These emerging risk will become areas of focus as we continue about the 2021 risk agenda and assess any impact the changing environment will have on the firm’s risk appetite.

Mark Stephens
Chair of Risk Committee

Key topics discussed by Risk Committee

Topic	Activity
Risk frameworks and policies	<ul style="list-style-type: none"> • Risk Management Framework and Risk Appetite Framework • Company’s ‘Three Lines of Defence’ model • Credit Risk Policy • New and Amended Product Approval Policy • Retail Savings new product approval ahead of launch
Risk monitoring	<ul style="list-style-type: none"> • Key and emerging risks • Risk metrics against risk appetite • Quarterly sector deep-dive reviews • COVID-19 business continuity plans and risk management measures • Enhanced monitoring of funding and liquidity pre-banking licence • Enhanced monitoring of retail savings launch • The impact of Brexit
Risk appetite and strategy	<ul style="list-style-type: none"> • Risk appetite statements, metrics, and limits • Asset audit strategy • IFRS9 adjustments (COVID-19 overlay) • MLRO Annual Report • Plans to address the risks arising from climate change • Company’s wholesale funding strategy
Governance	<ul style="list-style-type: none"> • SMCR contingency cover plan in light of COVID-19 • Conflicts of Interest Register
Capital, liquidity, and stress testing	<ul style="list-style-type: none"> • Stress tests conducted as part of COVID-19 risk management actions • Capital management planning and equity raise



Audit Committee Report



Carole Machell
Independent
Non-Executive Director

Chair of Audit Committee

Dear Shareholder

I am pleased to present this inaugural Audit Committee report for the year ended 31 December 2020. As you will appreciate, this committee works closely with the Risk Committee as there are many topics of overlap and interest, although with differing areas of focus. As a maturing organisation, we are now starting to see regularity in themes, topics and points of oversight throughout the calendar, many of which will be reoccurring through 2021. The Committee has oversight of both internal and external audit, alongside the accounting and financial policies of the Group.

2020 has been a busy year for the Committee, particularly given the backdrop of the global pandemic.

Impact of COVID-19

Unsurprisingly the challenges of 2020 meant that the Group had to work closely with its external auditors Deloitte LLP (“Deloitte”). Given the level of economic uncertainty, the impact of the global pandemic and the liquidity challenges faced by the Group, the decision was to delay our full year results for 2019, announcing them in June 2020. At that time, the Group announced that the directors felt that there was a material uncertainty relating to the Group’s ability to continue as a going concern. The Committee considered and assessed the prospects of the Group and its long-term viability. Action plans were put in place, agreed by the relevant sub-Committees and approved by the Board, to guide the firm through this period of uncertainty and keep a close watch of the Group’s overall liquidity and credit risk performance. As you will have read elsewhere in this Annual Report, the Group navigated these uncertainties well and having now received confirmation

of authorisation as a bank we believe the Group sits on solid foundations as we look to 2021. The audit process and committee have again challenged going concern considerations and are pleased to report that the material uncertainty which existed at the time of the last Annual Report no longer exists.

External audit

The Committee is responsible for overseeing the relationship with the external auditor, including assessing their effectiveness and approving their remuneration. The Committee considered and approved the planning of the external audit, including scope, materiality, risk evaluation and other areas of audit focus, and the results of the audit.

Reporting disclosure

Throughout 2020 and considering the global environment uncertainties for the Group, we felt it was appropriate to operate with an enhanced level of financial disclosure. We wanted to ensure that shareholders understood the impact COVID-19 was having on the firm and therefore we wanted to be confident that the information shared was presented in fair, balanced, accurate and accessible manner.

As a component of the Committee’s assessment of the financial reporting of the Group, several subjective accounting matters were considered, in relation to the Group’s interim and full year results. The Committee reviewed and challenged reports from the management team, with each area of subjective judgements being supported by management’s extensive analysis and accompanying explanation. Additionally, the Committee received insight from Deloitte as external auditors setting out their own views on and the appropriateness of the relevant accounting treatment and supporting analysis provide by management that underpins the financial statements of the Group.

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2020 has been a busy year for the Committee, particularly given the backdrop of the global pandemic



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



The BAC meets on at least a quarterly basis.

IFRS 9 and Expected Credit Losses Provisioning

Prior to each reporting date, the Committee received extensive analysis in relation to expected credit losses. Whilst the Group has limited experience of credit downturn given its relative short existence, experience was drawn on from elsewhere and similar challenging times, such as the financial crisis. Significant downside assumptions were considered and adopted by the Group in relation to probabilities of default and loss given default. These assumptions underpin the IFRS9 accounting approach for the period.

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 determined in the context of ESMA guidance, that whilst the Group was focused on achieving a profitable monthly run-rate, at the period ending 31 December 2020 there remained sufficient uncertainty in the Group's projections of future taxable income. Accordingly, the Group has not recognised any deferred tax assets during the period in review.

Capitalisation of internally generated intangible assets

The Committee considered the Group's approach to the capitalisation of development costs and the status and carrying value of current and prior capitalised projects. The Group has invested heavily in technology since its formation and incepted several projects that improve the Group's efficiency and scalability over the longer term. In considering management's recommendation, the principles of IAS 38 – Intangible Assets were considered by the Committee.

Share-based awards

During the year, share-based awards were granted to employees across the Group, a proportion of which related to compensation for the share restructure the Group undertook,

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, and 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, and 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; and
- Oversight over DF Capital's compliance with regulatory and reporting requirements.

following discussions with the PRA, immediately prior to receiving the bank licence. Share based awards are an important component of the Group's remuneration strategy and reward longer term performance. Given their nature, these awards can be significant and are dependent on the achievement of performance conditions. Accordingly, the determination of the value of these share-based awards requires management to make several subjective judgements as to the outcome of future performance and awards being achieved. The Committee considered and approved the accounting treatment of the granted awards and the methodology used to calculate

their value and the expense to be recognised. A total charge of £0.3m was made during the year and has been reflected in the Group's Statement of Comprehensive Income.

Internal audit

The Group's internal audit function is outsourced entirely to Grant Thornton LLP ("Grant Thornton"), who report directly to the Audit Committee. This outsourced approach gives the Group significant audit capacity and cost-effective access to specialist subject matter experts, which would be beyond our own reach as a relatively small firm. Through the year, the Committee received regular reports from the

internal audit team, which included progress updates against the audit plan, results of audits undertaken and a summary of outstanding audit actions. In 2020, eight audits were incepted by the Group. The Group's audit plan for the year, as approved by the Committee, covered an array of critical areas of potential risk for the firm.

The Committee used the internal audit reports and findings to assess the effectiveness of the Group's control framework, compliance with policies and overall approach to risk management.

Additionally, Grant Thornton was engaged to support the Board Effectiveness Review, where an audit style approach was utilised,

supplemented by questionnaires completed by Board members.

Whistleblowing

As Chair of Audit Committee, I also hold the role of Whistleblowing Champion for the firm and monitor and oversight the Group's Whistleblowing Policy and processes.

At the start of the year, the Committee reviewed the report relating to the 2019 Whistleblowing event.

Whilst we have not received any new whistleblowing events through 2020, we have ensured that employees continue to be aware of the process to raise any concerns they may have. The recently completed Conduct and Culture

survey, independently collated by Grant Thornton on behalf of management, identified a positive and open culture across the firm where employees felt that they could raise concerns, without recrimination, and accordingly their concerns would be heard. The survey received responses that exceeded 97% of the Group's employee population.

Carole Machell
Chair of Audit Committee

Key topics discussed by Audit Committee

Topic	Activity
External Audit	<ul style="list-style-type: none"> • Statutory accounts timetabling (including interim accounts) • Statutory to management accounts reconciliation • Interim audit • Subjective accounting considerations • Approval of statutory audit fees
Financial; Governance	<ul style="list-style-type: none"> • Board and ExCo expenses review 2020
Internal Audit	<ul style="list-style-type: none"> • Retail deposits • Regulatory reporting • Anti-money laundering • Work from home • Compliance and regulation • Conduct and culture • Credit risk management • Cyber • Business expenses policy
Internal Controls	<ul style="list-style-type: none"> • Travel and expenses • Whistleblowing • IFRS9 impaired asset and accounting policy • External reporting policy



Remuneration Committee Report



Mark Stephens
Senior Independent
Non-Executive Director

Chair of Remuneration
Committee

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The Group’s remuneration objective is to promote the long-term success of the firm

Dear Shareholder

I am pleased to present my first Remuneration Report to you, which sets out details of the firm’s approach to remuneration and the activities we have completed during the year ended 31 December 2020.

The Group’s remuneration objective is 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 in turn encourage the delivery of sustainable performance, appropriate and effective management of the firm’s risk profile, strong customer outcomes and effective employee engagement.

The firm’s approach to remuneration aligns to the relevant remuneration codes and policy statements of the Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”). Whilst DF Capital is categorised by regulators as a Level 3 firm, ie. amongst a cohort of smaller and less systemically important banks, its approach to remuneration follows the principles of proportionality as laid out in the PRA’s Rulebook and our approach to remuneration is expected to evolve as the size, nature, scope and complexity of the firm’s banking and regulated activities change over time.

Coronavirus Job Retention Scheme - Furlough payments

At the height of the first lockdown and given the liquidity challenges of the Group at that time, the decision was made to furlough 16 employees across the Group. Having decided to right size the firm’s operating headcount in light of the pandemic, in addition to the

relocation of the Group’s headquarters to Manchester, 19 employees were made redundant. During this period, the Group received funds from the UK Government’s Coronavirus Job Retention Scheme (“furlough payment”) totalling c£89,000.

Despite the Group remaining loss-making and having received the bank licence well after the final furlough payment was drawn, the Group has repaid all support it received under the scheme.

Current Compensation & Benefit Construct



At this stage of the Group’s evolution, its compensation and benefit arrangements lack complexity and are broadly common across all employees. The remuneration arrangements are reviewed annually. The components of the Group’s remuneration are:

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

Performance Share Plan (“PSP”): Employees participate in the Group’s PSP scheme by invitation, however participation is generally for more senior employees or Executive Directors. The aim of the PSP is to

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

incentivise long term valuation creation by issuing shares awards, generally with performance conditions attached, that vest in a three year performance review window.

Annual incentive plan & salary reviews – 2019/2020

AIP awards are paid to employees during the first quarter following the financial year end. The AIP awards for the financial year ending 31 December 2019 fell due as the global pandemic unfolded. In light of this and the emerging impact on the firm's liquidity at that time, the Group decided that it would be prudent to withhold all incentive payments, until such time as the outlook and economic impact of the public health crisis became clearer. Salary reviews that fell due in April 2020 were also deferred at that time.

In December 2020, following receipt of the bank licence, the Remuneration Committee ("RemCo") agreed that a discretionary incentive award in relation to 2019's performance was affordable and a payment equating to 5% of pro-rated annual salary was made to all employees. The Executive team, who were eligible to participate in this award, voluntarily elected not to participate and accordingly received no payment.

In light of the global pandemic, the challenging year faced by the Group, liquidity constraints and the continued financial losses made by the firm, no AIP payments will be made to any of the firm's employees in relation to 2020's financial year.

Having also deferred 2020 salary reviews, a company-wide 2% salary increase, as a cost of living adjustment, has been agreed for all employees effective from 1st April 2021. Carl D'Ammassa has voluntarily waived his entitlement to this cost of living adjustment.

Sharing in the Group's success

One of the principles we feel is important in any firm is ensuring there is strong alignment between employee incentivisation and value creation for shareholders. In light of the ongoing challenges presented by the pandemic and the constraints on both

Remuneration Committee ("RemCo")

The RemCo is appointed by the Board and is responsible for considering and recommending to the Board an overall remuneration policy 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;
- 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;
- Ensuring that remuneration levels are benchmarked to industry peers on a periodic basis and remuneration structures and incentives are adjusted for risk; 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).

salary reviews and annual incentive awards, the Group elected to make an all employee PSP award, with each employee receiving 5,000 shares in the Group. The awards were granted using unallocated shares held in the Employee Benefit Trust. These nil-cost option grants have no specific performance conditions attached to them, other than continuing employment at vesting in June 2023. We see this award as an additional retention tool as well as a way to reward our employees for their service.

The Group is considering similar awards in the future as well as other all employee schemes, such as Save As You Earn.

A number of nil cost share options were awarded through the PSP scheme as long-term incentive awards for a small

number of senior managers, including the Chief Financial Officer. The awards were made as both a driver of business performance, at a critical time for the firm, but also a retention tool for key employees. These awards totalled 985,000 shares and were granted using unallocated shares held in the Employee Benefit Trust. Gavin Morris, was granted 200,000 shares in this award cycle. All of these share awards have been granted in line with our PSP rules and have performance conditions aligned to Group's financial results, approach to risk management and other cultural objectives. The awards vest in June 2023.

Recruitment of Chief Executive Officer

Carl D'Ammassa was appointed CEO on 9 March 2020 and has successfully led the firm through the pandemic and

the conclusion of our banking licence application. On appointment, the CEO was granted 900,000 nil cost options by way of a Recruitment Award, which vest subject to on-going employment in June 2023 and specific performance conditions including receiving full authorisation as a bank. These share awards were granted using unallocated shares held in the Employee Benefit Trust.

Additionally, and to enable him to join the firm earlier than his contractual notice, Carl was compensated for an incentive award he would forgo in resigning, just before the incentive payment fell due for payment, from his position of Chief Executive at White Oak UK. This compensation payment amounted to £200,000.

Managing the impact of the share restructure on long term incentivisation

The Group announced on 7 August 2020 that as part of the ongoing bank licence application process and

following feedback from the PRA, the Group was required to take steps to reorganise parts of its existing share capital. This reorganisation involved the buy-back and cancellation of certain existing shares and issuance of new shares held by managers and former managers. The reorganisation steps enabled the managers to repay loans, provided by the Company and entered in to prior to the IPO, that enabled the acquisition of their long-term incentive shares.

Given the share restructure related to a technical matter, RemCo determined that the managers should not be disadvantaged on a net basis (after repayment of the loans and impact of differing personal taxation rules). Accordingly, a number of ordinary shares and PSP shares were issued to the employees, with similar performance, vesting and holding conditions to the buy-back and cancelled shares. Additionally, a smaller number of Company Share Option Scheme shares (“CSOP”) were issued. The majority of these

share awards are expected to be fulfilled by unallocated stock of shares held in the Employee Benefit Trust.

Changes to the regulatory environment

Effective from 1 January 2021, new regulatory policies have come into force that requires the variable pay (annual bonus and performance shares) of executives, other material risk takers and those meeting other thresholds to be limited to one times the value of fixed pay (base salary, benefits and pension) in any given financial year. These rules previously only applied to larger banks but have now been extended to Level 3 firms such as DF Capital.

Given the bank’s current remuneration schemes allow for an annual bonus of up to one times the value of fixed pay and additionally the firm’s PSP allows for up to two times fixed pay in long term share awards in any given financial year, we have updated the bank’s remuneration policy from the start of

Key topics discussed by Remuneration Committee

Topic	Activity
Governance	<ul style="list-style-type: none"> • Constitutional changes of committee memberships • Remuneration policy
Individual Remuneration	<ul style="list-style-type: none"> • CEO recruitment award • PSP awards and performance conditions • Impact of share restructure
Performance related	<ul style="list-style-type: none"> • Assessment of key criteria for performance • Bonus schemes
Remuneration for wider employees	<ul style="list-style-type: none"> • Salary change proposals • Long-term incentive plans • Share structure proposals • COVID-19 disturbance • “Living Wage Employer” accreditation

this year to reflect these changes and align with the regulatory requirements.

We understand that as a direct consequence of these regulatory changes, remuneration packages of many senior leaders and executive directors across the sector have been re-weighted away from variable compensation and balanced with increases in fixed pay.

These regulatory requirements do however allow for firm's to increase the regulatory limit on variable pay from one times fixed pay to two times by seeking shareholder approval to do so. Accordingly the Group is considering the impact of these changes relative to the market and will consider any proposed changes alongside the review of Executive Pay, that is scheduled for later this year. As a Board we are keen to ensure that the Group remains market competitive and continues to attract, motivate and retain talented employees. It is our intention to consult with shareholders in relation to our remuneration plan through 2021.

Salary benchmarking

Our remuneration philosophy is to attract and retain the best industry talent, in order to achieve the strategic objectives of the Group. Whilst we believe the current compensation and benefits packages are market competitive, and DF Capital's ambitious plans for growth is an attractive aid to recruitment and resonates with key talent, we do intend to conduct annual benchmarking of our remuneration packages for all employees to ensure they remain aligned to the market and continue to support our aims.

In light of the changes to the regulatory environment, we will be completing an Executive compensation review during Q2 2021, with the remainder of employees being benchmarked before the end of the year.

Additionally, we intend to benchmark Chairman and Non-Executive Director fees during Q2 2021, to ensure that these also align to the market, the relevant complexities of the banking environment and the responsibilities held by the Non-executive Directors under the Senior Manager and Certification Regime.

Providing a Living Wage to all employees

We are delighted to have received accreditation as a Living Wage Employer. The real Living Wage is the only hourly wage rate that is calculated accordingly to the costs of living. This accreditation is one of our early steps towards our sustainability agenda.

All of our employees' salaries, including those in our near supply chain, exceed the minimum "Living Wage" salary equivalent of £18,525 per annum. The Living Wage Foundation confirms the living rate hourly rate each November. Currently the Living Wage minimum is £9.50 per hour (outside of London), which exceeds the government minimum for over 25s of £8.72 per hour. It is our intention to continue to track ahead of the Living Wage minimum, ensuring that all of employees earn a salary they can live on, not just the government minimum.

Future developments

As a committee we intend to keep abreast of all changes in the regulatory environment relating to remuneration. We will closely monitor the effectiveness of our current approach to remuneration to ensure it continues to attract, motivate and retain the talent we need across the bank to achieve the firm's ambitious growth plans, deliver sustainable profitability and longer term value for our shareholders.

Mark Stephens
Chair of Remuneration Committee



Nomination Committee Report



Mark Stephens
Senior Independent
Non-Executive Director

Chair of Nomination
Committee

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Attracting and retaining the best talent will be an area of focus throughout the year ahead

Dear Shareholder

Much of the Committee's work this year has related to the appointment of key personnel across the Group. The Committee works closely with the Remuneration Committee when considering key personnel appointments.

Appointment of Chief Executive

Following Chris Dailey leaving the Group in November 2019 and Henry Kenner's appointment as Interim CEO, we announced that Carl D'Amassa would be joining the Group as Chief Executive Officer effective from March 2020. The Committee led a comprehensive, whilst accelerated, recruitment process that started shortly after Chris left the firm. A specialist recruitment firm was engaged, and candidates progressed through a structured process, meeting non-executive directors and being assessed against key skills and competency requirements of the role. The Committee was mindful of some of the cultural aspects raised through the whistleblowing events of 2019, therefore ensuring a strong and positive cultural fit was a key feature of the recruitment process.

Assessment and appointment of NEDs

The Group announced changes to the Board composition, following the appointment of two shareholder representative directors to the Board, under the relationship agreements with our two largest shareholders as disclosed in our listing documents. The Committee led the interview and assessment of the appointees, providing recommendations to the Board. The Committee also provided updates to the regulators in relation to Board composition and overall independence, a key consideration for regulators in our banking licence application.

On 13 May 2020, Stephen Greene, representing Arrowgrass Masterfund and Haakon Stenrod, representing Watrium AS, were appointed to the Board.

Board effectiveness review

As Senior Independent Director, I led the Board's Effectiveness Review. Grant Thornton was engaged to support the review, which followed an audit style approach supplemented by questionnaires for and interviews of all Directors.



The review highlighted the depth and breadth of expertise and experience across the Board membership and the positive way in which Board members engage with and challenge the Group's management. There are several observations for improvement, which were also shared by Board members, that will enhance the overall operation of the Board in relation to the administration of Board related matters. A plan is in place which is being led by the Group's Company Secretary and Chairman of the Board.

Management appointments

Members of the committee have been actively involved in the selection and recruitment of key management personnel across the Group. We were delighted to appoint Charlie Michael as Head of People, who joined the Group at the start of December.

The recruitment of a replacement Company Secretary has been concluded, following Sarah Clark, the Group's Company Secretary and General Counsel, leaving the Group on 31 December 2020. Tim Maw's appointment as Company Secretary was recommended to the Board and Tim joined us on 1 March 2021.

The Group's search for a replacement Chief Risk Officer, following Desmond McNamara's decision to retire, started in December. The Committee supported

	The NomCo is chaired by an INED.
	The NomCo meets twice a year.

the design of the recruitment process, with a specialist recruitment company being engaged to lead a market mapping of candidates. Committee members were engaged to interview the final shortlisted candidates, who were assessed on a qualitative and quantitative basis against the role requirements and key competencies. We were delighted to announce the appointment of Tomas Oliveira da Silva as Chief Risk Officer, effective from 1 March 2021 subject to regulatory approval. Tomas joined the Group as Head of Prudential and Enterprise Risk in November 2019. It is pleasing to see the promotion of internal talent into this critical leadership role within the Group.

Succession planning and performance assessments

2020 has undoubtedly been an unusual year and given the challenges that unfolded through the year, many of the standard Committee agenda items were postponed, giving priority to more pressing matters, such as the Group's navigation of the emerging risks and impacts of COVID-19 and the Group's continuing banking licence application.

As we enter 2021, now as a bank with a solid foundation on which we can grow the Group, a forward agenda of standard items has been agreed by the Committee for the year ahead.

During Q1 2021, the Group has completed Executive Director and Non-executive performance reviews. As Senior Independent Director, I have also completed the Chairman's Performance Review, having received input from all the Group's directors.

Whilst the Group remains relatively small in relation to the number of employees and has made recent significant hires, the Committee intends to consider senior management and Board succession plans later in 2021, always mindful of the Group's inclusion agenda and the appropriateness of targets in this regard. The Group's ambition is such that it is a fast paced environment with new skills and expertise emerging as we evolve and grow. We feel it is important to continually assess the composition of the Board and senior management team to ensure that we have the right skills and experience which allows the continued development of the firm at

Nomination Committee ("NomCo")

The NomCo is appointed by the Board and is responsible for leading the process of nominating Board committee members and senior management appointments within DF Capital. It also oversees the efficacy of the Company's Corporate Governance Framework, policies, and practices.

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;
- Working closely with the Board and the chair to identify the skills, experience, personal qualities, and capabilities required at both senior management and Board level, with consideration of the leadership needs of the Company and any changes necessary in line with strategic issues and commercial changes affecting the Company and the market in which it operates;
- 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 (and Senior Independent Director) to remove any underperforming executive director or NED.

pace, in line with the Group's strategic ambitions and its commitment to create a diverse workplace. Attracting and retaining the best talent and having the right initiatives in place will be an area of focus for the Committee throughout the year ahead.

Mark Stephens
Chair of Nomination Committee



Senior Leadership Team

Executive Directors



Carl D'Ammassa
Chief Executive Officer
(CEO)

Carl has more than 20 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 Chairman 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 possesses over 25 years of financial services experience across banking, corporate lending and leasing. 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 was involved in both the set up and dismantling of GE Capital Bank. Gavin is a qualified chartered accountant and spent 10 years with KPMG.

Senior Leadership Team^{1,2}



Andrew Stafferton
Chief Commercial Officer
(CCO)

Andrew co-founded DF Capital in 2016 and has over 20 years of financial services and distribution finance experience. Andrew 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.



Charlie Michael³
Head of People

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 Silva⁴
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 6 years in banking supervision at the Bank of England (Prudential Regulation Authority). Prior to that Tomas worked as an economist at IHS Markit and the Portuguese Ministry of Economy.



Jonathan Biggin
Chief Operating Officer
(COO)

Jonathan has more than 20 years of operational and technology experience in banking and financial services, most recently as COO of Hitachi Capital (UK). Prior to that he was COO for MBNA, Bank of America, and Head of Operations and Technology with Barclays Retail. Jonathan has led Customer Servicing, Credit and Collections, Operations, Technology and Data Management divisions.

¹ Sarah Clark left DF Capital on 31 December 2020, having held the position of General Counsel and Company Secretary.

² Desmond McNamara left DF Capital on 28 February 2021, having held the position of Chief Risk Officer.

³ Charlie Michael was appointed Head of People on 7 December 2020.

⁴ Tomas Oliveira da Silva was appointed Chief Risk Officer on 1 March 2021, subject to regulatory approval.

Management Committees

Executive Committee (ExCo)

The 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. The ExCo reviews and manages DF Capital's financial performance, risk management framework and the overall running of the business.

Key responsibilities of the ExCo include:



- Reviewing and recommending for approval by the Board strategic objectives, business and financial plans, performance targets, other initiatives, and key policies of DF Capital;
- Reviewing performance in light of DF Capital's strategy, objectives and risk appetite in the context of management accounts, agreed Operating Plan and Budget, and reporting in the context of the statutory accounts, Pillar 3

disclosures, ICAAP, ILAAP and RRP submissions;

- Review and monitor the internal audit programme, and internal and external audit reports, ensuring adequate resource is allocated and appropriate actions are taken;
- 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;
- Review the Company's risks and compliance reporting, taking appropriate action to mitigate risk or remediate non-compliance;
- Review the Company's IT Strategy driving necessary development and making recommendations to the Board for investment; and
- Cascade through the Company 'culture and tone' set by the Board relating to the conduct of business.

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.

	The ExCo is chaired by the CEO.
	The ExCo meets on a monthly basis (at least 10 times per year).

Executive Risk Committee (ERC)

The 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 and RRP 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.

	The ERC is chaired by the CRO.
	The ERC meets on a monthly basis (at least 10 times per year).

Operations Committee (OpCo)

The OpCo has responsibility for oversight and control of all aspects of the operations of the Company, whether under direct control with dedicated DF Capital staff, or whether the functions are outsourced, such as aspects of IT services. The OpCo supports the COO in his duties in ensuring that DF Capital is run in line with approved policies and detailed procedures.

Key responsibilities of the OpCo include:

- Reviewing the level of customer service delivered through analysis of Management Information (“MI”) relating to service level agreements and complaints, developing relevant action and risk mitigation plans for implementation;
- Reviewing implementation of and MI relating to the conduct risk and operational risk framework ensuring Board led culture is embedded within DF Capital’s operations team;
- Reviewing processes and procedures, ensuring these remain compliant with policy and regulation, and making changes where appropriate;
- Reviewing systems and controls and in particular Operational Risk controls ensuring these are appropriate and to escalate significant issues;
- Monitoring Information Security (“IS”)/Information Technology (“IT”) incidents and manage system performance through feedback to Head of IT;
- Reviewing and overseeing the delivery of projects within the Operating Plan;
- Continually monitoring incidents of fraud and cyber theft, identifying where controls can be implemented to prevent further occurrences;
- Reviewing DF Capital’s BCP and Disaster Recovery (“DR”) arrangements, ensuring yearly

testing of disaster recovery arrangements;

- Reviewing and managing resourcing within agreed headcount and budget; and
- Monitoring of complaints performance indicators.



The OpCo is chaired by the COO.



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

Asset and Liability Committee (ALCo)

The ALCo 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. The ALCo also ensures that the ILAAP and ICAAP 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 the 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.



The ALCo is chaired by the CFO.



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

Credit Committee (CC)¹

The Credit Committee is a sub-committee 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 CC 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 Director – Credit Risk Oversight



The Transactional Credit Committee meets (at least) weekly and is chaired by the Director – Credit.

Disclosure Committee (DisCo)

The 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) (UK MAR) (“the Market Abuse Regulation” or “MAR”), as detailed in the Company’s MAR Compliance Manual. DisCo’s 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”).

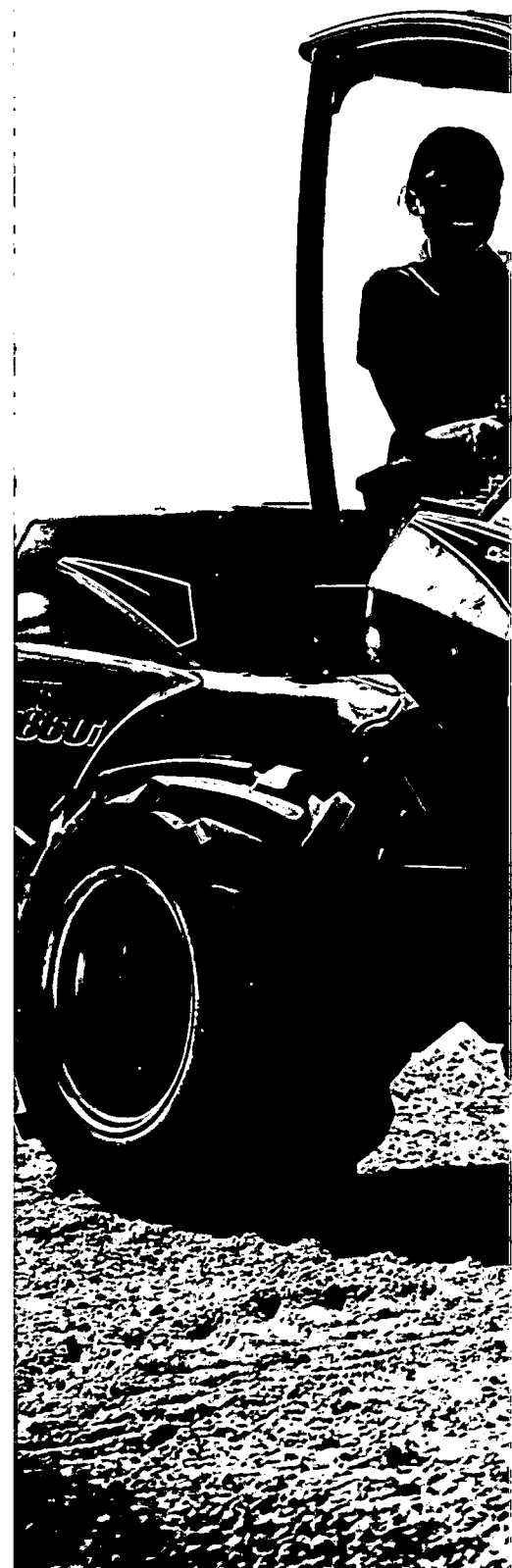
- The DisCo agenda includes regulatory announcements, shareholder circulars, prospectuses and other documents the Company is required to disclose to the market under any legal or regulatory requirements.



The DisCo is chaired by the CEO.



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



¹ Credit Committee has been effective since 1 March 2021



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

Senior leader: Charlie Michael

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. 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

Senior leader: Andrew Stafferton

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

Senior leader: Jonathan Biggin

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, IT and legal. 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

Senior leader: Gavin Morris

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.

Company Secretariat activities also report to the Chief Financial Officer.

Treasury

Senior leader: Gavin Morris

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

Senior leader: Tomas Oliveira da Silva

The Risk & 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

Senior leader: Director - Credit¹

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.

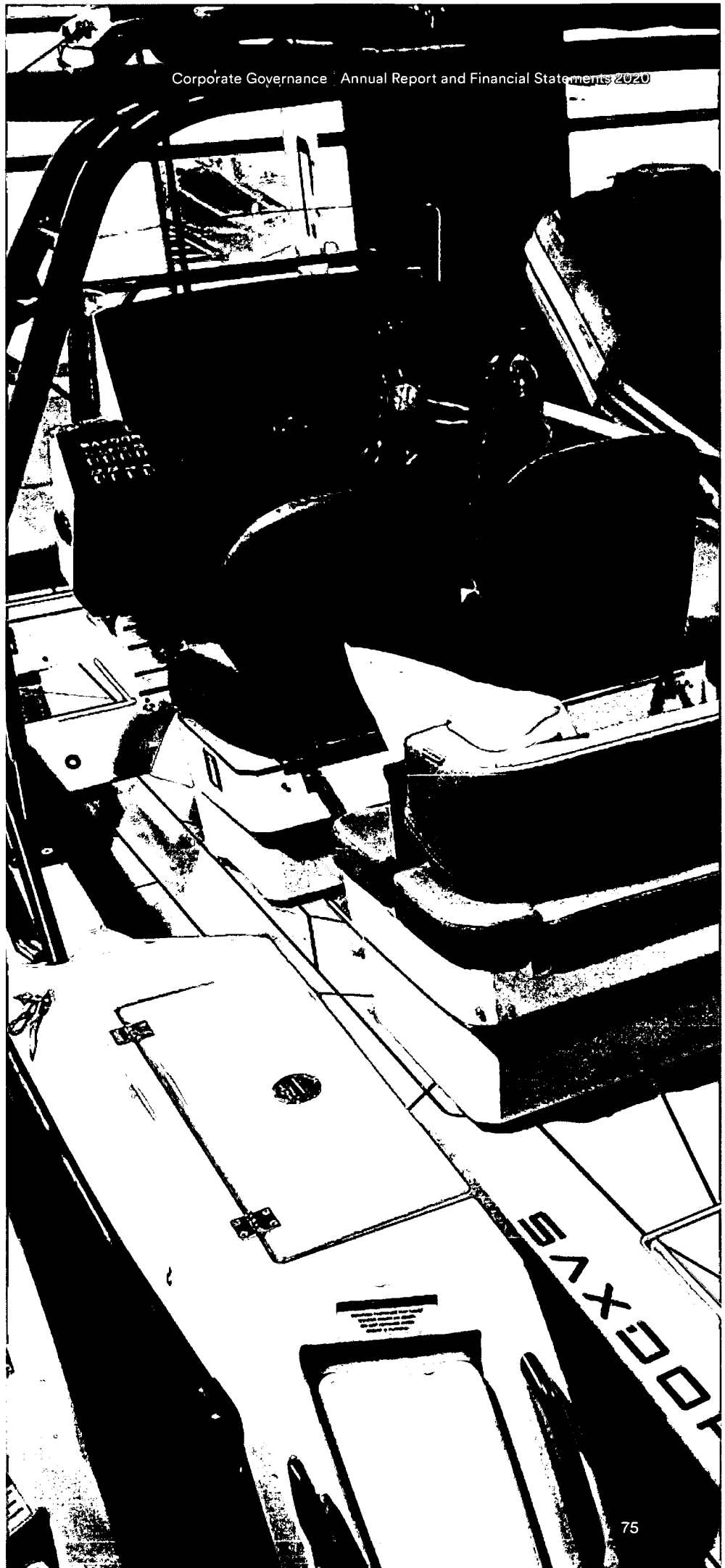
Internal Audit (Independent Assurance)

Senior leader: Grant Thornton lead reporting to CEO and Audit Committee Chair

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. Due to the fact that this is an outsourced function, the prescribed responsibilities under SMR are held by the CEO and by the Chair of the BAC, jointly, to ensure responsibility is retained in DF Capital.

¹ Appointee due to start May 2021



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 relatively newly 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 2020.



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. Our annual employee survey formally captures colleague views and is a key part of how we track engagement. The survey was formally managed and audited by the Group's outsourced Internal Audit function in 2020, with the findings discussed after the end of the year under review, in February and March 2021. As a small firm, and when operating from the office, Directors are accessible and visible to all employees which allows feedback to flow freely. The Group's whistleblowing champion, independent NED Carole Machell engages with whistleblowing investigations, supporting colleagues directly and actively raises awareness of the whistleblowing process across the firm.

Further information on key outputs in relation to our employees can be found in the Sustainability section of this report, pages 21 to 23.



Customers

The Board receives monthly 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 has encouraged an annual customer insight survey to best understand if the firm is providing the right products and quality of service to its customers. On launch of the retail deposit raising proposition, the Board received regular updates on the deposit raising and sentiments from customers including details of the feeof customer satisfaction scores. Further information on key outputs in relation to our customers can be found in the Sustainability section of this report, pages 24 to 25.



Shareholders

Fulfilling the firm's strategy depends significantly on the support of its shareholders. The Board receives regular updates from the CEO 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 broker, together with copies of analysts' notes, press articles and other relevant information.

While Board members were unable to meet shareholders in person at last year's postponed AGM due to closed nature of the meeting as a result of COVID-19 restrictions, shareholders were encouraged to contact the

company and directors directly with questions prior to the meeting, and all replies were responded to personally. Furthermore, significant dialogue with shareholders arose because of the need to postpone the meeting.

In addition, direct shareholder representation is provided by representatives from two of the company's largest shareholders (Arrowgrass Master Fund Ltd and Watrium AS) who were appointed to the Board in May 2020, pursuant to Relationship Agreements with those shareholders and the Company. The Group hosted an all-shareholder strategy update on receipt of the banking licence, alongside a number of video-based meetings with institutional shareholders.

Towards the end of the year, significant dialogue again took place with respect to the successful £40m capital raising, which concluded in February 2021. As part of the fundraise, meetings were scheduled with over 30 existing and prospective shareholders to provide an update on the firm's business plan and the purpose for raising capital. Directors also responded to questions from minority shareholders ahead of the General Meeting at which the placing was considered and approved by shareholder vote.

Further information on key outputs in relation to our shareholders can be found in the Sustainability section of this report, page 30.



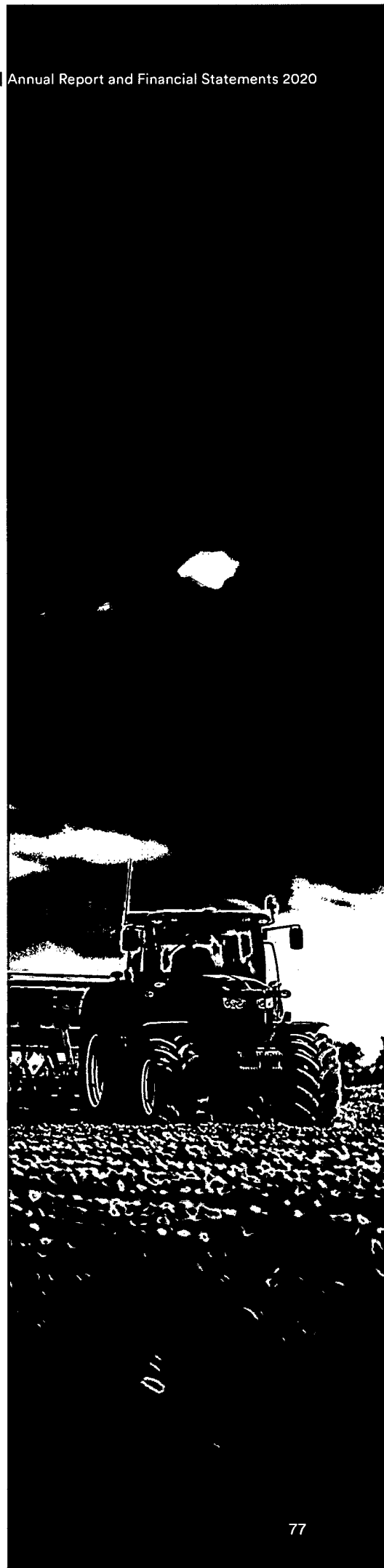
Regulators

The grant of our banking licence at the end of September 2020 drew the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") into our formal category of stakeholders, however, they had been considered as a stakeholder group since the submission of the banking application in August 2019. Furthermore, the Group has been operating as if it were a regulated bank throughout the year, and both

as part of the application process and on-going interaction it has a duty to engage transparently and proactively with the regulators. The Board and executive team's regular interaction with the regulators throughout the application process has continued as a newly authorised bank where the firm is subject to closer scrutiny. 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

The tables on the following pages show 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 of the key decisions taken by them during the period.



Decision	Stakeholder	Considerations
The Group's forward strategy should the bank licence application process run beyond the twelve month statutory window or ultimately be unsuccessful	Customers	An assessment was completed to understand the size of loan book that the firm could support as a non-bank or if the Group had to remain reliant on wholesale funding as its only source of liquidity. Additional consideration was given to whether restrictions would continue on the funds available from the wholesale funding facility. The timing and outcome of the Group's progressing of the British Business Bank's 'Enable' Funding scheme application was also overlayed on the loan book. In light of this analysis and the expected slower growth of the loan book, the impact on the Group's ability to support its customers was considered
	Employees	Should the Group need to pursue a non-bank strategy, the Board considered analysis of resourcing models required to support the firm in that scenario. An impact assessment identified headcount reductions, functional areas that would not be required, the timing of any restructuring and the communication strategy to the employee population.
	Regulators	In progressing the licence application, the firm had frequent and on-going communication with the regulators, providing regular detailed updates on the Group's performance and the impact of the pandemic. Business, capital and liquidity plans were updated throughout to assist the regulators in assessing the firm's application. The dialogues with regulators were critical in identifying the timing for the Board to invoke the non-bank strategy
	Shareholders	Shareholders were kept updated on the Board's plans and the progress of the licence application and expected timings by way of RNS announcements to the market throughout the process. Institutional shareholders received regular updates on Board deliberations. A shareholder presentation was compiled laying out both a "non-bank" and "bank" strategy. The Board considered the impact of an unsuccessful licence application on shareholders.
Chief Executive Officer appointment	Employees	The Board was mindful of the cultural aspects raised through the whistleblowing investigation of 2019. Therefore, a key feature of the recruitment process was to assess the leadership style of the individuals ensuring a strong and positive cultural fit and the impact this appointment would have on the Group's employees and the firm's culture.
	Regulators	The previous regulatory experience of the individuals was a key consideration. Our regulators were updated on the progress of the process and interviewed Carl D'Ammassa as part of the authorisation process.
	Shareholders	The interview process assessed candidate experience and ability to lead the Group's growth strategy alongside their ability to interact with and deliver key messages to our shareholders. This should enable future capital raises in line with our asset growth plan combined with a broadening of the shareholder register over time.
	Customers	The depth and breadth of industry and lending product expertise was a key point of assessment, to ensure a deep understanding of customers' needs both in our current product offering and future product evolution.

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 2020.

Details of significant events since the balance sheet date are contained in note 35 to these consolidated financial statements. An indication of likely future developments in the business of the Group are included in the Strategic Review section.

Information about the use of financial instruments by the Group is detailed within note 32 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 loss for the year, after taxation, amounted to £13,625,000 (2019: loss £13,500,000). The Directors do not recommend the payment of a dividend (2019: £nil).

Directors

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

John Baines	
Carl D'Ammassa	(appointed 9 March 2020)
Gavin Morris	
Mark Stephens	
Carole Machell	
Thomas Grathwohl	
Stephen Greene	(appointed 13 May 2020)
Haakon Stenrød	(appointed 13 May 2020)
Simon Henry Kenner	(resigned 13 May 2020)
James van den Bergh	(resigned 13 May 2020)

Directors' shareholdings

As at 31 December 2020, the Directors held the following ordinary shares in the Company:

	No. of ordinary shares	Voting rights (%)
John Baines - Independent Chairman	297,222	0.28%
Carl D'Ammassa - Chief Executive Officer	154,531	0.14%
Gavin Morris - Chief Financial Officer	213,433	0.20%
Carole Machell - Independent Non-executive Director	83,333	0.08%

Purchase of own shares

On 8 September 2020, following shareholder approval the Company authorised the issue and allotment of 4,906,776 new Ordinary Shares at 1p per share, the proceeds of which enabled the Company to buy back 4,906,776 existing Ordinary 1p shares. The issued share capital of the Company was the same before and after this transaction. The structure of this transaction meant that all loans that had either directly or indirectly funded the acquisition of the Company's Ordinary Shares were repaid (other than loans made to the Employee Benefit Trust) and all Ordinary Shares that had been directly or indirectly funded were cancelled and an equivalent number of new Ordinary Shares were issued.

Significant shareholders

As at 31 December 2020, the following parties held greater than 3% of issued share capital in the Company:

	No. of ordinary shares	Voting rights (%)
Arrowgrass Master Fund Ltd	52,448,082	49.18%
Watrium AS	16,373,366	15.35%
Liontrust Asset Management	7,574,509	7.10%
Premier Milton Investors	4,912,771	4.61%

Political and charitable donations

The Group made no political or charitable donations during the twelve month period ended 31 December 2020 (2019: nil).

Annual General Meeting

The Company's Annual General Meeting will be held at St James' Building, 61-95 Oxford Street, Manchester, M1 6EJ on 19 May 2021 at 12 p.m.

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. This stress testing has considered the potential impact of COVID-19 on our dealers, in particular in respect of credit losses, together with potential supply chain issues arising from Brexit. 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 a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. 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 46 to 78 contains information about the Group's corporate governance arrangements.

Post balance sheet events

There have been no significant events between 31 December 2020 and the date of approval of the financial statements which would require change to the financial statements. Note 35 provides information in respect of post balance sheet events.

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 he/she ought to have taken as a Director in order to make himself/herself 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 20 April 2021 and signed on its behalf by:

Carl D'Ammassa 
 Carl D'Ammassa
 Director

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 of the profit or loss of the Group for that period. In preparing these consolidated financial statements, International Accounting Standard 1 requires that Directors:

- select appropriate accounting policies and apply them consistently;
- 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 in IFRSs 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 Group'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 also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements 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 statements; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements 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: <ul style="list-style-type: none"> • Loan loss provisioning
Materiality	The materiality that we used for the group financial statements was £1.1m which was determined on the basis of 1% of loans and advances to customers.
Scoping	The scope of our audit covered substantially the entire group, with the following entities in scope, in addition to the parent company: <ul style="list-style-type: none"> • DF Capital Bank Limited.
Significant changes in our approach	In the prior year, we identified going concern as a key audit matter as the directors had determined that a material uncertainty existed that cast significant doubt on the group's ability to continue as a going concern. The key circumstances which gave rise to the material uncertainty, being the covenant breaches in relation to wholesale funding facilities and the outstanding loan from the previous parent company, no longer exist at the reporting date in the current year. We have, therefore, determined that going concern is not a key audit matter for the 2020 year-end audit. In addition, DFC Funding No.1 Limited has been removed from the scope of our audit as the entity entered into a voluntary wind-up in the year following the repayment of the associated wholesale funding facilities.

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, which included specific consideration of the impacts of the COVID-19 pandemic on the business and the Group's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- assessing changes to the Group's funding, including the new retail deposit funding arrangements;
- challenging assumptions used in management's forecasts and stress scenarios, including expected credit losses;
- involving our prudential 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	<p>As stated in note 20 to the financial statements, the group has a total loans and advances to customers balance of £113m (2019: £209m) and associated expected credit losses ("ECL") of £1.3m (2019: £1.4m), representing 1.14% (2019: 0.7%) of the total loans and advances to customers balance.</p> <p>As detailed in the summary of critical accounting judgements and estimates in note 3 to the financial statements, 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 32 to the financial statements, collateral is held against all of the loans and, at 31 December 2020, 99.5% (2019: 99.6%) of the loan portfolio was fully collateralised.</p> <p>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 sells 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</p>
How the scope of our audit responded to the key audit matter	<p>We gained an understanding of the relevant controls over the calculation of ECL for loans originated by the group in accordance with IFRS 9.</p> <p>We assessed management's ECL methodology to assess whether it is compliant with IFRS 9, tested the arithmetic accuracy of the ECL model and assessed whether the loan and collateral data used in the model was accurate.</p> <p>We independently tested the existence and valuation of assets held as collateral for a sample of loans. Furthermore, with reference to actual losses including experience during the COVID-19 pandemic, we challenged management's assumptions in relation to assets sold out of trust by testing a sample of losses incurred to determine whether assets were sold out of trust.</p>
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 recognised is reasonable.

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	£1.1m (2019: £2.1m)	£1.0m (2019: £2.0m)
Basis for determining materiality	1% of loans and advances to customers (2019: 1% of loans and advances to customers). Materiality has decreased compared to the prior year as a result of the decrease in the year-end loan balance compared to 2019.	Parent company materiality equates to less than 3% of shareholders' equity of the parent and is capped at 99% of group materiality (2019: 99% of group materiality).
Rationale for the benchmark applied	The group is loss making and, currently, we consider the focus of the users of the financial statements to be on growth of the loan portfolio. As a result, we believe that loans and advances to customers 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% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered our risk assessment, our understanding of the business and consideration of the group's control environment, including the impact of COVID-19 and the associated move to remote working, and the low number of corrected and uncorrected misstatements identified in the prior year.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £56,500 (2019: £100,000), 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 audit was scoped by obtaining an understanding of the group and its environment, key processes and controls over financial reporting, and assessing risks of material misstatement at a group level.

The audit was performed using the materiality levels set out above, for the group and the parent company only. The group audit covered 100% of total revenue, profit before tax, and total assets. The group's results are treated by management as if it were a single aggregated set of financial information and was audited directly by the group engagement team.

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 in order to obtain an understanding of the relevant controls over the financial reporting, lending and deposits cycles.

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 our 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;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- 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; and
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, IT and regulatory 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 area: 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 framework 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;
- understanding whether any significant changes were made to the control environment as a result of remote working arrangements;
- 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 these matters.

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.



Alastair Morley (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

20 April 2021

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Consolidated Statement of Comprehensive Income

	Note	2020 £'000	2019 £'000
Interest and similar income	4	11,233	12,230
Interest and similar expenses	6	(9,174)	(8,207)
Net interest income		2,059	4,023
Fee income	7	168	358
Net gains on disposal of financial assets at fair value through other comprehensive income	21	15	67
Other operating income		95	-
Total operating income		2,337	4,448
Staff costs	8	(9,805)	(9,854)
Other operating expenses ¹	10	(5,182)	(4,226)
Provisions	13	417	(165)
Other losses		(76)	-
Exceptional items	12	-	(2,125)
Total operating loss before impairment losses		(12,309)	(11,922)
Net impairment loss on financial assets	14	(1,294)	(1,582)
Loss before taxation		(13,603)	(13,504)
Taxation	16	-	-
Loss after taxation - attributable to equity holders of the Group		(13,603)	(13,504)

Other comprehensive (loss)/income:

Items that may subsequently be transferred to the income statement:

Fair value movements on debt securities	21	(22)	4
Total other comprehensive (loss)/income for the year, net of tax		(22)	4
Total comprehensive loss for the year attributable to equity holders		(13,625)	(13,500)

Earnings per share:

		pence	pence
Basic EPS	33	(13)	(18)
Diluted EPS	33	(13)	(18)

The notes on pages 95 to 145 are an integral part of these financial statements.

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

¹ Finance costs, depreciation and amortisation, loss on disposal of fixed assets have been consolidated into other operating expenses. These were presented separately in the financial statements for the year ended 31 December 2019. Further details are provided in note 10 of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Assets			
Cash and cash equivalents	23	21,233	14,122
Debt securities	21	66,601	7,994
Loans and advances to customers	20	111,337	207,636
Trade and other receivables	22	1,154	3,506
Property, plant and equipment	17	139	242
Right-of-use assets	18	64	638
Intangible assets	19	794	862
Total Assets		201,322	235,000
Liabilities			
Customer deposits	29	145,982	-
Financial liabilities	30	107	164,663
Trade and other payables	31	4,261	5,248
Provisions	13	83	533
Total Liabilities		150,433	170,444
Equity			
Issued share capital	25	1,066	1,066
Share premium	25	-	-
Merger relief	25	94,911	94,911
Merger reserve	27	(20,609)	(20,609)
Own shares	26	(364)	-
Retained (loss)		(24,115)	(10,812)
Total Equity		50,889	64,556
Total Equity and Liabilities		201,322	235,000

The notes on pages 95 to 145 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 20 April 2021. They were signed on its behalf by:

Carl D'Ammassa

Carl D'Ammassa
Director
20 April 2021

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 2019	17	35,994	-	-	-	18,541	54,552
Loss after taxation	-	-	-	(3,220)	-	(10,284)	(13,504)
Other comprehensive income	-	-	-	-	-	4	4
Preference shares redemption	-	-	-	-	-	(964)	(964)
Issue of new shares - DFC Ltd	7	24,993	-	-	-	-	25,000
Arising on consolidation	(24)	(60,987)	-	(17,389)	-	(17,577)	(95,977)
Issue of new shares - DFCH plc	1,066	-	94,911	-	-	(532)	95,445
Balance at 31 December 2019	1,066	-	94,911	(20,609)	-	(10,812)	64,556
Loss after taxation	-	-	-	-	-	(13,603)	(13,603)
Other comprehensive income	-	-	-	-	-	(22)	(22)
Share based payments	-	-	-	-	-	322	322
Employee Benefit Trust loan	-	-	-	-	(364)	-	(364)
Balance at 31 December 2020	1,066	-	94,911	(20,609)	(364)	(24,115)	50,889

The notes on pages 95 to 145 are an integral part of these consolidated financial statements.

Refer to note 25 and 26 for further details on equity movements during the periods.

Consolidated Cash Flow Statement

	Note	2020 £'000	2019 £'000
Cash flows from operating activities:			
Loss before taxation		(13,603)	(13,504)
Adjustments for non-cash items and other adjustments included in the income statement	23	2,059	1,711
(Increase)/decrease in operating assets	23	96,764	(95,015)
Increase/(decrease) in operating liabilities	23	(19,073)	92,034
Taxation paid	16	-	-
Net cash from/ (used in) operating activities		66,147	(14,774)
Cash flows from investing activities:			
Purchase of debt securities	21	(120,721)	(92,045)
Proceeds from sale and maturity of debt securities	21	62,107	89,116
Purchase of property, plant and equipment	17	(32)	(152)
Purchase of intangible assets	19	(226)	(397)
Net cash used in investing activities		(58,872)	(3,478)
Cash flows from financing activities:			
Issue of new shares	25	-	25,000
Repayment of lease liabilities	23	(164)	(182)
Net cash (used in)/ from financing activities		(164)	24,818
Net increase in cash and cash equivalents		7,111	6,566
Cash and cash equivalents at start of the year		14,122	7,556
Cash and cash equivalents at end of the period	23	21,233	14,122

In comparison to the previous year financial statements, the Group revised its presentation of the consolidated cash flow statement for the year ended 31 December 2020. The new format provides a simplified cash flow statement with further details disclosed within note 23 of these consolidated financial statements.

Notes to the Financial Statements

1. Basis of preparation

1.1 General information

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

DF Capital Bank Limited was granted its banking licence in September 2020, after which the Company renamed from Distribution Finance Capital Ltd (“DFC Ltd”) to DF Capital Bank Limited (the “Bank”).

DFCH plc is registered and incorporated in England and Wales whose company registration number is 11911574. The registered office is 196 Deansgate, Manchester, M3 3WF. 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 bank 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

Both the consolidated financial statements and the Company financial statements included in this Annual Report and Financial Statements has been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice (UK GAAP), International Financial Reporting Standards (IFRSs) and the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations.

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.

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. Subsidiaries are consolidated from the date on which control is transferred to the Group. Accounting policies have been applied consistently throughout the Group and its subsidiary.

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 Adoption of new and revised standards and interpretations

During the year ended 31 December 2020, the Group did not adopt any new standards and amendments to existing standards which were effective for accounting periods starting on or after 1 January 2020. A number of other new and revised standards issued by the International Accounting Standards Board also came into effect on 1 January 2020, but they do not have a material effect on the Group’s financial statements and are not further disclosed. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Financial Statements continued

The Group assessed the following new standards, amendments and interpretations which have had no material impact on the financial statements as follows:

- a. Amendments to IAS 12 'Income taxes': 'Income Tax Consequences of Payments on Instruments Classified as Equity'
- b. 'Interest Rate Benchmark Reform': Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'
- c. Amendment to IFRS 16: COVID-19 rent concessions

1.4 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.

1.5 Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Group has adequate resources to continue operating in the foreseeable future. In making this assessment the Directors have considered the Group's current available capital and liquidity resources, the business financial projections and the outcome of stress testing. This stress testing has considered the potential impact of COVID-19 on our dealers, in particular in respect of credit losses, together with potential supply chain issues arising from Brexit. Based on this review, the Directors believe that the Group is well placed to manage its business risks successfully within the expected economic outlook.

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.

1.6 Foreign currencies

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

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

1.7 New accounting standards issued but not yet effective

The Group assesses on an ongoing basis the impact of new accounting standards which are not yet effective at the reporting date and the likely impact of the new accounting standard on the financial statements. At 31 December 2020, the Group has applied all new IFRS standards and foresees no additional standards with a likely material impact to consider at this time.

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 expense" 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 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”).

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.

Other income from financial instruments

For financial instruments that are classified as FVTPL, any interest or fee income is included in the profit and loss account within the fair value gain or loss.

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.

The Group presently holds no financial instruments for trading or hedging purposes, nor has it designated any items as FVTPL.

Other operating income

Other operating income consists of UK government grant monies which have been claimed by the Group.

2.2 Other expense from financial instruments

Any interest or fees incurred in servicing liabilities carried at FVTPL are included in the profit and loss account within “Net gain/(loss) from financial instruments at FVTPL”.

2.3 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

Notes to the Financial Statements continued

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.

2.4 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 has 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.

Internally-generated assets are amortised on a straight-line basis over a period of 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.

2.5 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 directly attributable to the acquisition of financial assets and financial liabilities at FVTPL are recognised immediately in the consolidated income statement.

Financial assets

Classification and reclassification of financial assets

Recognised financial assets within the scope of IFRS 9 are required to be classified as subsequently measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL) on the basis of both

the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are reclassified if, and only if, the business model under which they are held is changed. There has been no such change in the allocation of assets to business models in the periods under review.

I. Loans and advances to customers

Loans and advances to customers are held within a business model whose objective is to hold those financial assets in order to collect contractual cash flows. Further, the contractual terms of the loan agreements give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Accordingly, loans and advances to customers are subsequently measured at amortised cost. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. 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 income in the income statement. The losses arising from impairment are recognised in the income statement and disclosed with any other similar losses within the line item "Net impairment losses on financial assets".

II. Fair value through other comprehensive income (FVTOCI)

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. Trade receivables

Trade receivables do not contain any significant financing component and accordingly are recognised initially at transaction price, and subsequently measured at amortised cost less accumulated impairment allowance.

IV. Other receivables

Other receivables are held only to collect contractually due payments of principal (and exceptionally interest charges due on late settlement). Where the fair value of these transactions is materially similar to the transaction price, each is recognised initially at the contracted amount, and subsequently measured at amortised cost less accumulated impairment allowance.

V. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and demand deposits with a maturity date of less than three months from recognition. These balances are readily convertible into cash and subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost less accumulated impairment allowance.

Impairment

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

- Loans and advances to customers
- Other receivables*
- Trade receivables*, 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. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that Distribution Finance Capital expects to receive arising from the weighting of future economic scenarios, discounted at the asset's EIR.

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

Notes to the Financial Statements continued

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

The 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
- Distribution Finance Capital, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that Distribution Finance Capital 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 32 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.

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.

Notes to the Financial Statements continued

Write offs

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

Financial liabilities

Financial liabilities and equity

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

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.

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 and Additional Tier 1 capital securities are presented as components of equity. 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

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

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.

Other financial liabilities - loans and borrowings

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 profit and loss account.

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.

2.6 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 balance sheet 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 balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

2.7 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.

2.8 Share based payments

The Group has introduced 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.

2.9 Leasing

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

Notes to the Financial Statements continued

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 lease 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.

2.10 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 balance sheet 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 Distribution Finance Capital'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.

2.11 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.

2.12 Alternative performance measures (APMs)

Financial measures or metrics used in these financial statements which are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

2.13 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.

Alternative performance measures

Adjusted basic earnings per share is calculated using the basic loss per share calculation excluding exceptional items as recorded in the income statement. This provides a consistent measure of operating performance excluding distortions caused by exceptional items resulting from the initial public offering of the Company. The number of shares is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor. Contingently issuable shares are included in the basic EPS denominator when the contingency has been met.

Adjusted diluted earnings per share is calculated after adjusting the weighted average number of shares used in the adjusted basic earnings per share calculation to assume the conversion of all potentially dilutive shares.

There are no adjustments to account for in any of the periods presented and therefore the adjusted earnings per share is determined to be the same as the basic and diluted earnings per share.

2.14 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 granted should a company satisfy all the following criteria:

- 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.

Notes to the Financial Statements continued

2.15 Merger accounting

Business combination and merger accounting

In the year ended 31 December 2019, the Group assessed the transactions which resulted in the newly formed Group in May 2019. The Group reached the conclusion that although there was a change in control and ownership of the Group, the transactions executed represented a combination of businesses under common control. Resultantly, the transactions are not within the scope of IFRS 3 Business Combinations and the Group must consider other applicable accounting standards.

FRS 102 provides accounting guidance for transactions of this nature and provides prescriptive guidance in the form of Merger Accounting and in particular using the book value accounting method in order to prepare the consolidated financial statement for the Group.

The principles of merger accounting are as follows:

- Assets and liabilities of the acquired entity are stated at predecessor carrying values. Fair value measurement is not required;
- No new goodwill arises in merger accounting; 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. Therefore, these consolidated financial statements reflect for the year ended 31 December 2019 the entire twelve month period despite the Group being formed in May 2019.

Merger reserve

Following the initial public offering of the Company in May 2019, the Company is now the ultimate controlling party of the Group. The Board of Directors elected to account for the transaction using merger accounting which prescribes that any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity at the date of transaction is included in equity in retained earnings or in a separate reserve account. Therefore, on consolidation of the Group financial statements, the difference between the consideration paid (proceeds from the initial public offering) and the book value of DF Capital Bank Limited (formerly Distribution Finance Capital Ltd) is recognised as a Merger Reserve, in accordance with relevant accounting standards relating to businesses under common control.

2.16 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.

2.17 Exceptional items

The Group has classified items of income or expense as exceptional in the consolidated statement of comprehensive income if the amounts are material and the Directors do not expect to incur costs of a similar nature in the future. The Directors of the Group have highlighted these numbers as exceptional as they are not considered as normal operating costs of the business but represent a material portion of the overall consolidated statement of comprehensive income.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

3.1 Critical accounting judgements

Leases – recognition of lease term

At initial recognition of a lease agreement in accordance with IFRS 16, the Group assesses the expected term and payment profile of the lease which is used to calculate the right-of-use asset and lease liability on the Group's balance sheet. The Group determines the lease term by taking into consideration the non-cancellable lease term and any exercise options to trigger a renewal or break clause in the lease agreement.

When determining the likely term of the lease at initial recognition, the Group primarily uses management judgment and business forecasts to determine the expected term of the lease. After initial recognition, the Group continually assesses the expected remaining term throughout the life of the lease. Should the expected remaining term be amended due to changes in circumstances or a significant event, the Group will adjust the right-of-use asset and lease liability in accordance with the treatment of a lease modification.

During the year ended 31 December 2020, the Group exercised break clause options for both property leases. Further details can be found in note 18.

3.2 Key sources of estimation uncertainty

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

Expected credit losses loan impairment

The Group applies a number of assumptions and estimations within its impairment loss model to calculate the expected credit losses of its loan portfolio. Although these assumptions and estimates are validated against historical performance where possible, the Group is acutely aware that IFRS 9 is a forward-looking process which should not be driven solely by past performance. Consequently, the Group is required to make informed decisions in regards to expected credit losses and impairment allowances over the foreseeable future.

Although there are many factors which impact the Group's impairment modelling, the following areas are deemed to have a material impact on the financial statements:

Definition of default

Prior to becoming a newly approved bank, the Group aligned 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.

Probability of default (PD)

The majority of the Group's loan portfolio has an expected behavioural term of less than 12 months. As such, there is not a material difference between the 12-month PD for stage 1 exposures and the lifetime PD for stage 2 exposures. The Group's impairment model uses both external Delphi credit ratings and internal credit risk ratings to assess the PD of each counterparty at the reporting date.

Due to the wider economic impact of the COVID-19 pandemic and the impact of restrictive measures by the UK government on our customers, the Group has revised its PD assumptions to reflect the increase in credit risk to the Group. Furthermore, the Group has conducted a thorough validation process of its PD model against historical default data, including data obtained during the pandemic, to assess the reasonableness of its PD assumptions. Nevertheless, the economic outlook for the UK and the impact of the Group's counterparties remain uncertain and, as a result, actual dealer defaults could differ from the Group's estimate.

A 100% deterioration in PDs (excluding stage 3 exposures, which are already in default) would result in an additional impairment charge of £540,000 (2019: £261,000).

Notes to the Financial Statements continued

Loss given default (LGD)

As a collateralised lender, the Group is impacted the most by changes in LGD so it ensures that its LGD model assumptions are robust, the most sensitive assumption being collateral haircuts to reflect forced sale discounts, sales out of trust and costs to sell. In response to the COVID-19 pandemic, the Group increased its collateral haircut assumptions to reflect the impact of the pandemic on its counterparties. The Group is satisfied that its LGD modelling is reasonable in comparison to past recoverability performance, including data obtained during the pandemic. Nevertheless, the economic outlook for the UK and, in particular, the behaviour of the Group's counterparties once government support ends remain uncertain and, as a result, actual losses could differ from the Group's estimate.

A 10% reduction in the expected discounted cashflows from the collateral held by the Group would result in an additional impairment charge of £400,000 (2019: £431,000).

Multiple economic scenarios

The Group considers four economic scenarios within its impairment modelling whereby the Group stresses PD and LGD inputs in accordance with expected macro-economic and managerial outlooks. This provides an ECL impairment allowance for each scenario which is multiplied by the likelihood of occurrence over the next 12-month period from the balance sheet date to give a probability weighted ECL. Due to COVID-19, the Group has amended its baseline assumptions which in turn resulted in the Group revising its multiple economic scenarios and the probabilities attached to each scenario.

When formulating the multiple economic scenarios, the Group considers both macro-economic factors and other specific drivers which may trigger a certain stress scenario. After which, the Group applies managerial judgment supported by external reputable research publications to assess the impact these factors will have upon PD, LGD and the likeliness of these events occurring over the following 12-month period. In these financial statements, the Group has reflected the impact of the COVID-19 pandemic and the uncertainty over the likely economic recovery at this time although the economic outlook is beginning to look more positive than earlier in the year.

See below for the Group's multiple economic scenarios as at 31 December 2020, which includes the impairment allowance (increase)/decrease if a 100% probability is applied to the respective scenario:

Scenario	Probability weighting (%)	ECL impairment (£'000)	ECL coverage (%)	Decrease/(increase) in impairment allowance (£'000)
Improved	30%	874	0.77%	414
Baseline	40%	1,131	0.99%	157
Poor	20%	1,679	1.47%	(391)
Severe	10%	2,380	2.09%	(1,091)

4. Interest and similar income

	2020 £'000	2019 £'000
On loans and advances to customers	11,206	12,144
On loans and advances to banks	17	75
On employee loan agreements	10	11
Total interest and similar income	11,233	12,230

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.

6. Interest and similar expenses

	2020 £'000	2019 £'000
Customer deposits	279	-
Interest paid to related parties	913	812
Wholesale funding interest	7,982	7,602
Preference shares	-	(207)
Total interest and similar expense	9,174	8,207

DF Capital Bank Limited was granted its banking licence in September 2020 and began offering its savings products to customers in October 2020. The Group used the funds raised from customer deposits to settle in full its financial liabilities held by TruFin Holdings Limited and its wholesale funders before the end of 2020. The Group is now solely financed by customer deposits with no other financial liabilities. See note 29 and 30 for further detail of the movements in customer deposits and financial liabilities during the year.

7. Fee income

	2020 £'000	2019 £'000
Facility-related fees	168	358
Total fee income	168	358

In light of the COVID-19 pandemic and the impact upon our commercial customers, the Group waived facility fee billing from March to November 2020 totalling c.£0.2m as a gesture of goodwill to our clients during this difficult time.

8. Staff costs

Analysis of staff costs:

	2020 £'000	2019 £'000
Wages and salaries	7,959	8,050
Share based payments	322	-
Contractor costs	75	238
Social security costs	1,054	1,295
Pension costs arising on defined contribution schemes	395	271
Total staff costs	9,805	9,854

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.

Notes to the Financial Statements continued

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

	2020 No.	2019 No.
Management	12	13
Finance	7	6
Risk	13	6
Sales & Marketing	15	16
Operations	30	29
Technology	11	10
Total average headcount	88	80

Directors' emoluments:

	Fees/basic Salary £'000	Benefits in kind £'000	Bonuses £'000	Employer pension contributions £'000	Long term incentive schemes £'000	2020 Total £'000	2019 Total £'000
Executive Directors:							
Carl D'Amassa	547	5	-	35	188	775	-
Gavin Morris	245	7	-	23	-	275	438
Henry Kenner ¹	210	-	-	-	-	210	59
	1,002	12	-	58	188	1,260	497
Non-Executive Directors:							
John Baines	200	-	-	-	-	200	172
Mark Stephens	150	-	-	-	-	150	129
James Van den Bergh ¹	61	-	-	-	-	61	-
Carole Machell	100	-	-	-	-	100	93
Thomas Grathwohl	100	-	-	-	-	100	93
Stephen Greene ²	-	-	-	-	-	-	-
Haakon Stenrød ²	-	-	-	-	-	-	-
	611	-	-	-	-	611	487
Total Directors Remuneration	1,613	12	-	58	188	1,871	984

Carl D'Amassa was appointed CEO on 9 March 2020. To enable him to join the firm earlier than his contractual notice, he was compensated for an incentive award he would forgo in resigning, just before the incentive payment fell due for payment, from his position of Chief Executive at White Oak UK. This compensation payment amounted to £200,000 and is reflected within fees/basic salary figure of £547,000 above. His annual basic salary is £425,000.

The long-term incentive scheme amount of £188,000 for Carl D'Amassa relates to the award of 500,000 nil cost options under a Recruitment Award that were subject to receiving full authorisation as a bank, which was achieved in September 2020. These options vest subject to on-going employment in June 2023. Further details are given in note 9.

The pension for the year ended 31 December 2020 to Carl D'Amassa and Gavin Morris of £35,000 and £23,000 respectively is the amount of payments made to these individuals in lieu of Group pension contributions.

Carl D'Amassa and Gavin Morris have received share options as part of long-term incentive schemes of which none of these options have vested as at 31 December 2020. Further details of these share option schemes can be found in note 9 and 34.

¹ Henry Kenner and James van den Bergh resigned on 13 May 2020.

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.

9. Share based payments

The Group has the following share options scheme for employees which have been granted and remain outstanding at 31 December 2020:

	No. of options outstanding 31 December 2020	Options outstanding value 31 December 2020 £'000	Grant dates	Vesting dates	Exercise price (pence)	Performance conditions attached	Settlement method	Charge for current year £'000
General Award	320,000	17	Jun-20	Jun-23	Nil	No	Equity	17
Senior Manager Award	985,000	53	Jun-20	Jun-23	Nil	Yes	Equity	53
Recruitment Award	900,000	53	Jun-20	Jun-23	Nil	Yes	Equity	53
Manager PSP Award	853,334	188	Aug-20	Aug-20 Jun-21 Jun-22	Nil	No	Equity	188
Manager CSOP Award	385,298	11	Aug-20	Jun-21 Jun-22 Jun-23	40.5p	No	Equity	11
Total	3,443,632	322						322

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.

All share options issued by the Group, as detailed above, were issued in the 12-month period ended 31 December 2020. The Group did not have any share options prior to this period. During the year none of the share options were exercised or expired, and 35,000 share options were forfeited. All forfeited share options were from the General Award and the monetary impact was negligible.

Based on the fair value of the options at their respective grant date, taking into consideration any restrictive vesting criteria, including performance conditions, the estimated weighted average fair value at the grant date for the different schemes is as follows:

Plan	Weighted average fair value price at grant date (pence)
General Award	37.50
Senior Manager Award	37.50
Recruitment Award	37.50
Manager PSP Award	40.50
Manager CSOP Award	8.00
Average weighted fair value at grant date	34.97

The terms of the individual schemes are as follows:

General Award

Nil cost options over ordinary shares of £0.01 each of the current share capital of the Company were granted to all employees. These options vest over a 3-year period and are not subject to specific performance conditions.

Under this General Award Carl D'Amassa and Gavin Morris both received 5,000 nil cost options each.

Notes to the Financial Statements continued

Recruitment Award

Carl D'Amassa was appointed CEO on 9 March 2020. On appointment, he was granted 900,000 nil-cost options over ordinary shares of £0.01 each of the current share capital of the Company by way of a Recruitment Award. These vest subject to on-going employment in June 2023, with 500,000 nil cost options subject to receiving full authorisation as a bank and the remaining 400,000 nil cost options subject to performance conditions aligned to financial performance, risk management and cultural objectives.

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 vesting in June 2023.

Under this Senior Manager Award Gavin Morris received 200,000 nil cost options.

Manager PSP and CSOP Award

The Group announced on 7 August 2020 that as part of the ongoing bank licence application process it had taken steps to reorganise its existing share capital. This reorganisation involved the buy-back and cancellation of certain existing shares held by managers and former managers of the Group. The reorganisation steps enabled the managers to repay loans to the Group, entered in to prior to the IPO, that predominantly related to tax payable on initial receipt of the shares.

The Remuneration Committee determined that the managers should not be disadvantaged as a result of the reorganisation (after repayment of the loans and the impact of differing personal tax situations). Accordingly, 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.

One Director, Gavin Morris, was affected as a result of this reorganisation who received 19,733 PSP nil cost options and 74,074 CSOP Options.

The fair value of the CSOP was measured at the grant date using the Black-Scholes model. The inputs were as follows:

Grant Date	20 August 2020
Share price at grant date	40.5p
Exercise price	40.5p
Shares under option	385,298
Vesting period	35 months
Expected volatility	30%
Expected life	35 months
Risk free rate	0.2%
Expected dividends	nil
Fair value per model at grant date	8p

Since the Group has only been listed on AIM since May 2019 insufficient time has elapsed to calculate historic volatility for the Group shares, therefore historic volatility of similar size banking company shares has been used to estimate the expected volatility. The risk-free rate is based on UK Government bonds.

10. Other operating expenses

	Note	2020 £'000	2019 £'000
Finance costs	11	17	29
Depreciation	17,18	290	304
Amortisation of intangible assets	19	237	155
Loss on disposal of fixed assets	17	3	22
Loss on disposal of intangible assets	19	57	-
Other operating expenses		4,578	3,716
Total other operating expenses		5,182	4,226

11. Finance costs

	2020 £'000	2019 £'000
Interest on lease liabilities	17	29
Total finance costs	17	29

12. Exceptional items

	2020 £'000	2019 £'000
Initial public offering transaction costs	-	2,125
Total exceptional items	-	2,125

The Directors do not consider any of the costs incurred in the year ended 31 December 2020 to be exceptional in nature.

13. Provisions

Analysis for movements in other provisions:

	At 31 December 2019 £'000	Additions £'000	Utilisation of provision £'000	Unused amounts reversed £'000	At 31 December 2020 £'000
Social security and levies on share schemes	105	-	-	(105)	-
Severance payments	337	1	(338)	-	-
Leasehold dilapidations	91	-	(26)	(7)	58
Onerous supplier contracts	-	25	-	-	25
	533	26	(364)	(112)	83

Social security payments

The Group was holding a provision for a tax liability on consultancy fee payments following professional advice these payments should be treated under IR35 so give rise to PAYE tax and national insurance contributions (NIC). The Group made a voluntary disclosure to HMRC which in the year ended 31 December 2020 received confirmation from HMRC that the Group was not legally obliged, under IR35, to deduct PAYE from the payments made direct to another limited company.

Notes to the Financial Statements continued

Severance payments

During the year ended 31 December 2020, the Group satisfied its remaining severance payments in full with a minor adjustment due to the estimated employers NIC payments against actual expense.

Leasehold dilapidations

A provision for leasehold dilapidations of £91,000 has been recognised in accordance with IFRS 16 Leases whereby the estimated restoration costs for office premises leased by the Group have been added to the right-of-use asset at initial recognition. The Group gave notice on its London office which resulted in actual dilapidation costs of £26,000 and the Group released £7,000 of unused provision held. The Group has also given notice on its office premises at 196 Deansgate, Manchester, M3 3WF and has assessed its current provision of £58,000 should remain unchanged.

Onerous supplier contracts

The Group assessed at 31 December 2020 a supplier contract to have no further benefit to the Group. The contract has been cancelled in 2021 and the Group recognised the remaining contractual payments as an onerous provision.

14. Net impairment loss on financial assets

	2020 £'000	2019 £'000
Movement in impairment allowance in the year	(107)	1,336
Write-offs	1,403	246
Write-back of amounts written-off	(2)	-
Total net impairment losses on financial assets	1,294	1,582

Analysis of write-offs are as follows:

	Note	2020 £'000	2019 £'000
Realised losses on loan receivables	20	1,206	59
Realised losses on trade receivables	22	6	7
Realised losses on other receivables		20	-
Loss on disposal of assets held for sale		-	74
Recovery transaction costs		200	114
Bad debt VAT relief		(29)	(8)
Total write-offs		1,403	246

15. Loss before taxation

Loss before taxation is stated after charging:

	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	132	118
Depreciation of right-of-use assets	158	185
Amortisation of intangible assets	237	155
Loss on disposal of property, plant and equipment	3	22
Loss on disposal of intangible assets	58	-
Allowance for credit impaired assets	(107)	1,336
Staff costs	9,805	9,854
Auditor's remuneration	316	764
	10,602	12,434

Analysis of auditor's remuneration:

	2020 £'000	2019 £'000
Audit services		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	46	99
Fees payable to the Company's auditor for the audit of its subsidiaries	139	20
Fees paid to the Company's auditors relating to prior periods	83	-
Total audit services fees	268	119
Assurance services		
IPO due diligence work	-	561
Interim review	48	45
Regulatory assurance work	-	39
Total assurance services fees	48	645
Total auditor's remuneration	316	764

16. Taxation

Analysis of tax charge recognised in the period:

	2020 £'000	2019 £'000
Current tax charge/ (credit)	-	-
Deferred tax charge/ (credit)	-	-
Total tax charge/(credit)	-	-

Reconciliation of loss before tax to total tax credit recognised:

	2020 £'000	2019 £'000
Loss before taxation	(13,625)	(13,500)
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	(2,589)	(2,565)
Adjustments:		
Disallowable expenses	57	700
Depreciation & amortisation	100	52
Capital allowances	(53)	(60)
Capital items expensed	60	24
Other short-term timing differences	(69)	7
Current year losses for which no deferred tax asset has been recognised	2,494	1,842
Total tax credit	-	-

Current tax on profits reflects UK corporation tax levied at a rate of 19% for the year ended 31 December 2020 (31 December 2019: 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 £25.0 million per annum.

Notes to the Financial Statements continued

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.

In the March 2020 Budget, it was announced that the cuts in corporation tax rate to 18% and then to 17% previously enacted would not occur with the corporation tax rate held at 19%. On 3 March 2021, the government announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This rate change was not substantively enacted at the balance sheet date and so has not been reflected in these financial statements. The government has also acknowledged that this increase in the main rate will result in an uncompetitive position for UK banks which are also subject to the 8% Bank Surcharge, and so has also announced a review of the Bank Surcharge will take place in Autumn 2021.

A deferred tax asset is only recognised to the extent the Group finds it probable that future taxable profits will be available against which to be utilised against prior taxable losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Group has not recognised a deferred tax asset in the period given the uncertainty in relation to generating future taxable profits which can be offset against unused taxable losses. As at 31 December 2020, the Group has estimated £7.05 million (31 December 2019: £3.55 million) of unused tax credits for which a deferred tax asset has not been recognised against.

17. Property, plant and equipment

	Leasehold Improvements £'000	Furniture, Fixtures & Fittings £'000	Computer Hardware £'000	Telephony & Communications £'000	Total £'000
Cost					
As at 1 January 2019	23	104	167	6	300
Additions	3	33	116	-	152
Disposals	-	-	(54)	-	(54)
As at 31 December 2019	26	137	229	6	398
Additions	-	-	32	-	32
Disposals	-	-	(14)	-	(14)
As at 31 December 2020	26	137	247	6	416
Depreciation					
As at 1 January 2019	3	18	46	3	70
Charge for the year	8	38	70	2	118
Eliminated on disposals	-	-	(32)	-	(32)
As at 31 December 2019	11	56	84	5	156
Charge for the year	9	43	79	1	132
Eliminated on disposals	-	-	(11)	-	(11)
As at 31 December 2020	20	99	152	6	277
Carrying Amount					
At 31 December 2019	15	81	145	1	242
At 31 December 2020	6	38	95	-	139

18. Right-of-use assets

	Buildings £'000
Cost	
As at 1 January 2019	-
Adoption of IFRS 16	823
Restated balance as at 1 January 2019	823
Additions	-
Disposals	-
Lease modifications	-
As at 31 December 2019	823
Additions	-
Disposals	-
Lease modifications	(416)
As at 31 December 2020	407
Depreciation	
At 1 January 2019	-
Charge for the year	185
Eliminated on disposals	-
At 31 December 2019	185
Charge for the year	158
Eliminated on disposals	-
At 31 December 2020	343
Carrying Amount	
At 1 January 2019	-
At 1 January 2019 restated	823
At 31 December 2019	638
At 31 December 2020	64

During the year ended 31 December 2020 the Group is engaged in leasing agreements for office premises and IT equipment. The IT equipment leases fall below the USD 5,000 IFRS 16 threshold and, resultantly, the Group have opted not to classify these leases as right-of-use assets.

For property leases which qualify for right-of-use asset recognition, the average lease term is typically 5 years (2019: 5 years). In response to the COVID-19 pandemic the Group exited its London office premises in October 2020 and moved its headquarters to its existing Manchester office. Following this, the Company gave notice on its Manchester office in December 2020 and has subsequently signed new office leases after the reporting date – see note 35 for further details. Due to the shortening of the lease term from initial recognition, this has resulted in the following modification to the right-of-use asset as follows:

Notes to the Financial Statements continued

	London office	Manchester office
Lease start date (IFRS 16 adoption date)	Jan-19	Jan-19
Original lease end date	Apr-23	Jul-23
Revised lease end date	Oct-20	Jul-21
Lease modification date	May-20	Dec-20
	£'000	£'000
Right-of-use asset value pre-modification	201	304
Right-of-use asset value post-modification	21	68
Decrease in right-of-use asset from lease modification	(180)	(236)

The Group has applied an average weighted incremental borrowing rate of 5% in order to calculate the present value of expected cash out flows. The Group has a reasonable expectation that it will pay restoration costs at either the date the contract expires, or the lease is cancelled. At 31 December 2020, the Group recognised restoration costs of £58,000 (31 December 2019: £91,000) which have been added to the right-of-use asset at initial recognition and also recognised in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets' – refer to note 13 for further details on the corresponding provision recognised.

The maturity analysis of lease liabilities is presented in note 28.

Amounts recognised in the income statement:

	2020 £'000	2019 £'000
Depreciation expense on right-of-use assets	158	185
Interest expense on lease liabilities	17	29
Expense relating to short-term leases	-	-
Expense relating to leases of low value assets	5	4
Expenses relating to variable lease payments not included in measurement of lease liability	55	58
Total amounts recognised in the income statement	235	276

Some of the property leases in which the Group is the lessee contain variable lease payment terms relating to service charge 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:

	2020 £'000	2019 £'000
Buildings		
Fixed payments	164	182
Variable payments	54	62
Total lease payments	218	244

19. Intangible assets

	Computer Software £'000
Cost	
At 1 January 2019	669
Additions from internal development	393
Additions from separate acquisitions	4
Disposals	-
At 31 December 2019	1,066
Additions from internal development	226
Additions from separate acquisitions	-
Disposals	(103)
At 31 December 2020	1,189
Amortisation	
At 1 January 2019	49
Charge for the year	155
Eliminated on disposals	-
At 31 December 2019	204
Charge for the year	237
Eliminated on disposals	(46)
At 31 December 2020	395
Carrying Amount	
At 31 December 2019	862
At 31 December 2020	794

In the year ended 31 December 2020, the Group capitalised £130,000 (31 December 2019: £312,000) of consultancy costs and £95,500 (31 December 2019: £81,500) 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 2020 and concluded an impairment of £57,000 (31 December 2019: £nil).

20. Loans and advances to customers

	2020 £'000	2019 £'000
Gross carrying amount	113,259	209,449
Less: impairment allowance	(1,288)	(1,409)
Less: effective interest rate adjustment	(634)	(404)
Total loans and advances to customers	111,337	207,636

Refer to note 32 for details on the expected maturity analysis of the gross loans receivable balance.
Refer to note 14 and 32 for further details on the impairment losses recognised in the periods.

Notes to the Financial Statements continued

Ageing analysis of gross loan receivables:

	2020 £'000	2019 £'000
Unimpaired:		
Not yet past due	112,510	206,000
Past due: 1 - 30 days	21	404
Past due: 31 - 60 days	5	128
Past due: 61 - 90 days	14	46
Past due: 90+ days	-	-
Total unimpaired	112,550	206,578
Impaired:		
Impaired, not yet past due and past due 1 - 90 days	578	2,117
Impaired, past due 90+ days	131	754
Total impaired	709	2,871
Total gross loan receivables	113,259	209,449

Analysis of gross loans and advances to customers:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2020	201,993	4,585	2,871	209,449
Transfer to Stage 1	3,639	(2,597)	(1,042)	-
Transfer to Stage 2	(36,584)	38,725	(2,141)	-
Transfer to Stage 3	(3,152)	(2,418)	5,570	-
Net lending/(repayment)	(62,048)	(29,569)	(3,367)	(94,984)
Write-offs	(25)	-	(1,181)	(1,206)
	(98,170)	4,141	(2,161)	(96,190)
As at 31 December 2020	103,823	8,726	710	113,259
Loss allowance coverage at 31 December 2020	0.62%	0.56%	83.66%	1.14%

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2019	91,359	22,620	134	114,113
Changes in IFRS 9 model & parameters	13,549	(14,449)	900	-
Transfer to Stage 1	8,591	(5,541)	(3,050)	-
Transfer to Stage 2	(17,466)	17,518	(52)	-
Transfer to Stage 3	(11,649)	(1,478)	13,127	-
Net lending/(repayment)	117,609	(14,085)	(8,129)	95,395
Write-offs	-	-	(59)	(59)
	110,634	(18,035)	2,737	95,336
As at 31 December 2019	201,993	4,585	2,871	209,449
Loss allowance coverage at 31 December 2019	0.17%	0.89%	35.81%	0.67%

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 2020	340	41	1,028	1,409
Transfer to Stage 1	309	(57)	(252)	-
Transfer to Stage 2	(80)	89	(9)	-
Transfer to Stage 3	(97)	(16)	113	-
Remeasurement of impairment allowance	408	247	884	1,539
Net lending/(repayment)	(224)	(255)	(6)	(485)
Write-offs	(11)	-	(1,164)	(1,175)
Total movement in loss allowance	305	8	(434)	(121)
As at 31 December 2020	645	49	594	1,288

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2019	88	32	49	169
Changes in IFRS 9 model & parameters	54	(9)	(23)	22
Transfer to Stage 1	121	(9)	(112)	-
Transfer to Stage 2	(23)	30	(7)	-
Transfer to Stage 3	(13)	(30)	43	-
Change in impairment allowance	877	49	1,430	2,356
Repayments	(764)	(22)	(295)	(1,081)
Write-offs	-	-	(57)	(57)
Total movement in loss allowance	252	9	979	1,240
As at 31 December 2019	340	41	1,028	1,409

Notes to the Financial Statements continued

21. Debt securities

	2020 £'000	2019 £'000
FVOCI debt securities:		
Treasury bills	49,011	7,994
UK government gilts	17,590	-
Total FVOCI debt securities	66,601	7,994
Analysis of movements during the year:		
At 1 January	7,994	4,994
Purchased debt securities	120,721	92,045
Realised gains	15	67
Unrealised gains	(22)	4
Proceeds from maturing securities	(62,107)	(89,116)
At 31 December	66,601	7,994
Maturity profile of debt securities:		
Within 12 months	49,011	7,994
Over 12 months	17,590	-

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. The Group recognised no expected credit losses in respect of the debt securities as at 31 December 2020 (31 December 2019: £nil).

Refer to note 32 for details of the maturity profile of these securities.

22. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	261	248
Impairment allowance	(121)	(107)
	140	141
Other debtors	207	576
Employee loans	-	723
Accrued income	63	441
Prepayments	744	1,625
	1,014	3,365
Total trade and other receivables	1,154	3,506

All trade receivables are due within one year, refer to note 32 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:

	2020 £'000	2019 £'000
Unimpaired:		
Not yet past due	106	109
Past due: 1 - 30 days	15	10
Past due: 31 - 60 days	11	6
Past due: 61 - 90 days	13	20
Past due: 90+ days	-	-
	145	145
Impaired:		
Impaired, not yet past due and past due 1 - 90 days	45	3
Impaired, past due 90+ days	71	100
	116	103
Total gross trade receivables	261	248

Analysis of movement of impairment losses on trade receivables:

	2020 £'000	2019 £'000
Balance at 1 January	107	11
Changes in IFRS 9 model & parameters	-	15
Amounts written off	(6)	(7)
Amounts recovered	-	-
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	20	88
Balance at 31 December	121	107

23. Notes to the cash flow statement**Cash and cash equivalents:**

	2020 £'000	2019 £'000
Cash held at bank	21,233	14,122
Total cash and cash equivalents	21,233	14,122

The Group has assessed the expected credit losses (ECL) on cash balances held at banks, which concluded all receivable balances are classified as stage 1 under IFRS 9 with no material impairment required.

Notes to the Financial Statements continued

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

	Note	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	17	132	118
Depreciation of right-of-use assets	18	158	185
Loss on disposal of property, plant and equipment	17	3	22
Amortisation of intangible assets	19	237	155
Loss on disposal of intangible assets	19	57	-
Share based payments	9	322	-
Impairment allowances on receivables	14	1,294	1,582
Movement in other provisions	13	(450)	(313)
Interest income on debt securities	21	(15)	(67)
Finance costs	11	17	29
Lease modifications		76	-
Interest in suspense		228	-
Total non-cash items and other adjustments		2,059	1,711

Net change in operating assets:

	2020 £'000	2019 £'000
Decrease/(increase) in loans and advances to customers	94,321	(95,178)
Decrease in other assets	2,443	163
Decrease/ (increase) in operating assets	96,764	(95,015)

Net change in operating liabilities:

	2020 £'000	2019 £'000
Increase in customer deposits	145,982	-
Increase/(decrease) in other liabilities	(1,332)	1,192
Increase in financial liabilities	12,283	99,272
Repayment of financial liabilities	(176,006)	(8,430)
Increase/(decrease) in operating liabilities	(19,073)	92,034

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.

	1 January 2020 £'000	Financing cash flows £'000	Non-cash changes			31 December 2020 £'000
			Recognition of lease liabilities £'000	Interest expense on lease liabilities £'000	Lease modifi- cation £'000	
Lease liabilities (see note 28)	537	(164)	-	18	(334)	57
Total liabilities from financing activities	537	(164)	-	18	(334)	57

	1 January 2019 £'000	Financing cash flows £'000	Non-cash changes		31 December 2019 £'000
			Recognition of lease liabilities £'000	Interest expense on lease liabilities £'000	
Lease liabilities (see note 28)	-	(182)	690	29	537
Total liabilities from financing activities	-	(182)	690	29	537

24. Investment in subsidiaries

Subsidiary	Principal Activity	Shareholding %	Class of shareholding	Country of incorporation	Registered Address
DF Capital Bank Limited (formerly, Distribution Finance Capital Ltd)	Financial Services	100%	Ordinary	UK	196 Deansgate, Manchester, M3 3WF

DF Capital Bank Limited (formerly named Distribution Finance Capital Ltd) was granted its banking licence by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) in September 2020. The wholly owned subsidiary subsequently changed its name to DF Capital Bank Limited. In October 2020, the Group began raising customer deposits in sufficient quantity that it could settle its financial liabilities with existing wholesale funders. The Group fully repaid its wholesale funders by November 2020 after which, DFC Funding No.1 Limited, a special purchase vehicle under the Group's control but held no ownership, was placed into liquidation in December 2020.

25. Equity

	2020 No.	2019 No.	2020 £'000	2019 £'000
Authorised:				
Ordinary shares of 1p each	106,641,926	106,641,926	1,066	1,066
Allotted, issued and fully paid: Ordinary shares of 1p each	106,641,926	106,641,926	1,066	1,066

Notes to the Financial Statements continued

Analysis of the movements in equity:

	Date	No. of shares #	Issue Price £	Share Capital £'000	Share Premium £'000	Merger Relief £'000	Total £'000
Balance at 1 January 2019		17,240,000		17	35,994	-	36,011
Issue of new shares - DFC Ltd	07-May-19	6,530,303	3.83	7	24,993	-	25,000
Employee shares - DFC Ltd	08-May-19	173,244	0.001	-	-	-	-
Arising on consolidation	09-May-19	(23,943,547)	-	(24)	(60,987)	-	(61,011)
Issue of new shares - DFCH Plc	09-May-19	106,641,926	0.90	1,066	-	94,911	95,977
Balance at 31 December 2019		106,641,926		1,066	-	94,911	95,977
Issue of new shares	08-Sep-20	4,906,776	0.01	49	-	-	49
Buy back of shares	08-Sep-20	(4,906,776)	0.01	(49)	-	-	(49)
Balance at 31 December 2020		106,641,926		1,066	-	94,911	95,977

On 8 September 2020, following shareholder approval the Company authorised the issue and allotment of 4,906,776 new Ordinary Shares at 1p per share, the proceeds of which enabled the Company to buy back 4,906,776 existing Ordinary 1p shares. The issued share capital of the Company was the same before and after this transaction. The structure of this transaction meant that all loans that had either directly or indirectly funded the acquisition of the Company's Ordinary Shares were repaid (other than loans made to the Employee Benefit Trust) and all Ordinary Shares that had been directly or indirectly funded were cancelled and an equivalent number of new Ordinary Shares were issued.

26. Own shares

At 31 December 2020 the Group's Employee Benefit Trust held 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 2020 was £1,896,501.

	2020 £'000	2019 £'000
At 1 January	-	-
Employee Benefit Trust	(364)	-
At 31 December	(364)	-

27. Merger reserve

	2020 £'000	2019 £'000
At 1 January	20,609	-
Consideration from initial public offering	-	95,977
Net assets of subsidiary at acquisition date	-	(75,368)
At 31 December	20,609	20,609

28. Lease liabilities

	2020 £'000	2019 £'000
At 1 January	537	-
At 1 January restated	537	690
Interest expense	18	29
Interest payments	(164)	(182)
Lease modification	(334)	-
At 31 December	57	537

At the start of the year ended 31 December 2020, the Group recognised two leases for its London and Manchester offices. During the year ended 31 December 2020, the Group has given notice on both of these offices, enacting the break clauses for each. At the year end reporting date, the London office had been fully exited and the Manchester office serving its notice period up to July 2021. See note 18 for further details on the lease modifications.

The Group has not agreed a new lease at the reporting date for its new Manchester office so is yet to recognise a corresponding lease liability. After the reporting date the Group signed a new lease for office premises, see note 35 for further details.

The fair value of the Group's lease obligations as at 31 December 2020 is estimated to be £57,056 (2019: £537,145) 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:

	2020 £'000	2019 £'000
Analysed as:		
Non-current	-	378
Current	57	159
	57	537
Maturity Analysis:		
Year 1	58	182
Year 2	-	182
Year 3	-	182
Year 4	-	39
Year 5	-	-
Onwards	-	-
	58	585
Less: unearned interest	(1)	(48)
Total lease liabilities	57	537

Notes to the Financial Statements continued

29. Customer deposits

	2020 £'000	2019 £'000
Retail deposits	145,982	-
Total customer deposits	145,982	-
Amounts repayable within one year	60,132	-
Amounts repayable after one year	85,850	-
	145,982	-

Refer to note 32 for the maturity profile of the customer deposit balances.

30. Financial liabilities

	2020 £'000	2019 £'000
Loans with related parties	-	13,925
Wholesale funding	-	150,151
Lease liabilities	57	537
Preference shares	50	50
Total financial liabilities	107	164,663

Loans with related parties:

During the year ended 31 December 2020, the Group made an initial repayment to TruFin Holdings Limited of £5 million plus accrued interest of £348,000. In response to the impact of COVID-19, the Group renegotiated the existing facility in August 2020 at which time the facility had principal outstanding of £8.9 million. The new facility had the option for the Group to repay either on 4 January 2021 or by nine equal monthly instalments throughout 2021. Following the granting of the banking licence, the Group had sufficient liquidity to repay the facility in full in December 2020.

Wholesale funding:

Shortly after DF Capital Bank Limited was granted its banking licence in September 2020, the Group raised sufficient customer deposits to fully repay its wholesale funders by November 2020. The Group is now primarily financed through customer deposits.

Lease liabilities:

See note 28 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 31 December 2022. 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:

	2020 £'000	2019 £'000
Current liabilities	57	164,236
Non-current liabilities	50	427
Total financial liabilities	107	164,663

Reconciliation of movement in financial liabilities:

	Loans with related parties £'000	Wholesale funding £'000	Preference shares £'000	Lease liabilities £'000	Total £'000
Balance at 1 January 2019	10,293	59,041	3,111	-	72,445
Financing cashflows:					
Wholesale funding drawdowns	-	94,272	-	-	94,272
Wholesale funding repayments	-	(3,430)	-	-	(3,430)
Amounts received from related parties	5,000	-	-	-	5,000
Amounts repaid to related parties	(5,000)	-	-	-	(5,000)
Interest paid	(1,048)	(7,334)	-	-	(8,382)
Repayment of lease liabilities	-	-	-	(182)	(182)
	(1,048)	83,508	-	(182)	82,278
Non-cash changes:					
Incorporating shareholder debtor	-	-	50	-	50
Preference shares	3,868	-	(2,903)	-	965
Initial recognition of lease liabilities	-	-	-	690	690
Interest expense	812	7,602	(208)	29	8,235
	4,680	7,602	(3,061)	719	9,940
Balance at 31 December 2019	13,925	150,151	50	537	164,663
Financing cashflows:					
Wholesale funding drawdowns	-	12,283	-	-	12,283
Wholesale funding repayments	-	(162,051)	-	-	(162,051)
Amounts received from related parties	-	-	-	-	-
Amounts repaid to related parties	(13,955)	-	-	-	(13,955)
Interest paid	(883)	(8,365)	-	-	(9,248)
Repayment of lease liabilities	-	-	-	(164)	(164)
	(14,838)	(158,133)	-	(164)	(173,135)
Non-cash changes:					
Lease modifications	-	-	-	(334)	(334)
Interest expense	913	7,982	-	18	8,913
	913	7,982	-	(316)	8,579
Balance at 31 December 2020	-	-	50	57	107

Notes to the Financial Statements continued

31. Trade and other payables

	2020 £'000	2019 £'000
Current liabilities		
Trade payables	624	651
Social security and other taxes	2,044	2,401
Other creditors	778	1,410
Pension contributions	32	36
Accruals	709	750
Total current liabilities	4,187	5,248
Non-current liabilities		
Social security and other taxes	74	-
Total non-current liabilities	74	-
Total trade and other payables	4,261	5,248

32. 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 30) and equity (comprising issued capital, merger relief, reserves, own shares and retained earnings – see notes 25 to 27).

As a newly formed bank during the year ended 31 December 2020, the Group is required by the Prudential Regulation Authority (PRA) to hold sufficient regulatory capital. In preparation of the banking licence the Group has been monitoring and managing its regulatory capital as if it had already been granted the banking licence so the changes since have been minimal.

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 in regards to its risk weighted assets ("RWAs") and 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 for calculating the capital requirements for credit risk and the Basic Indicator Approach for operational risk. The ICAAP is approved by the Group Board at least annually.

The regulatory capital resources of the Group were as follows:

	2020 £'000	2019 £'000
Tier 1 Capital		
Ordinary share capital	1,066	-
Share premium	-	-
Other reserves recognised for CET1 capital	74,302	-
Own shares	(364)	-
Retained loss	(24,115)	-
Other	(2,303)	-
Intangible assets	(794)	-
Common Equity Tier 1 (CET1) capital	47,792	-
Tier 2 capital	-	-
Total regulatory capital	47,792	-

After the reporting date the Group raised additional capital through a £40 million placing which materially increased its regulatory capital position. Refer to note 35 for further details.

The return on assets of the Group (calculated as Loss after taxation divided by average Total Assets) was -7%

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:

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

Notes to the Financial Statements continued

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:

	Loans and receivables £'000	Fair value through other comprehensive income £'000	Liabilities at amortised cost £'000	Total £'000
31 December 2020				
Assets				
Cash and equivalents	21,233	-	-	21,233
Loans and advances to customers	111,337	-	-	111,337
Debt securities	-	66,601	-	66,601
Trade receivables	140	-	-	140
Other receivables	207	-	-	207
Total financial assets	132,917	66,601	-	199,518
Non-financial assets	-	-	-	1,804
Total assets	132,917	66,601	-	201,322
31 December 2020				
Liabilities				
Preference shares	-	-	50	50
Customer deposits	-	-	145,982	145,982
Other financial liabilities	-	-	57	57
Trade payables	-	-	624	624
Other payables	-	-	2,928	2,928
Total financial liabilities	-	-	149,641	149,641
Non-financial liabilities	-	-	-	792
Total liabilities	-	-	149,641	150,433

	Loans and receivables £'000	Fair value through other comprehensive income £'000	Liabilities at amortised cost £'000	Total £'000
31 December 2019				
Assets				
Cash and equivalents	14,122	-	-	14,122
Loans and advances to customers	207,636	-	-	207,636
Debt securities	-	7,994	-	7,994
Trade receivables	141	-	-	141
Other receivables	1,299	-	-	1,299
Total financial assets	223,198	7,994	-	231,192
Non-financial assets	-	-	-	3,808
Total assets	223,198	7,994	-	235,000
31 December 2019				
Liabilities				
Preference shares	-	-	50	50
Other financial liabilities	-	-	164,613	164,613
Trade payables	-	-	651	651
Other payables	-	-	3,847	3,847
Total financial liabilities	-	-	169,161	169,161
Non-financial liabilities	-	-	-	1,283
Total liabilities	-	-	169,161	170,444

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).

Notes to the Financial Statements continued

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

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 December 2020					
Financial assets not measured at fair value					
Loans and advances to customers	111,337	111,337	-	-	111,337
Trade receivables	140	140	-	-	140
Other receivables	207	207	-	-	207
Cash and equivalents	21,233	21,233	21,233	-	-
	132,917	132,917	21,233	-	111,684

31 December 2020					
Financial liabilities not measured at fair value					
Preference shares	50	50	-	-	50
Customer deposits	145,982	145,982	-	-	145,982
Other financial liabilities	57	57	-	-	57
Trade payables	624	624	-	-	624
Other payables	2,928	2,928	-	-	2,928
	149,641	149,641	-	-	149,641

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 December 2019					
Financial assets not measured at fair value					
Loans and advances to customers	207,636	207,636	-	-	207,636
Trade receivables	141	141	-	-	141
Other receivables	1,299	1,299	-	-	1,299
Cash and equivalents	14,122	14,122	14,122	-	-
	223,198	223,198	14,122	-	209,076

31 December 2019					
Financial liabilities not measured at fair value					
Preference shares	50	50	-	-	50
Other financial liabilities	164,613	164,613	-	-	164,613
Trade payables	651	651	-	-	651
Other payables	3,847	3,847	-	-	3,847
	169,161	169,161	-	-	169,161

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

Loans and advances to customers

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

Trade and other receivables, other borrowings and other liabilities

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

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 December 2020			
Financial assets measured at fair value			
Debt securities	66,601	-	-
	66,601	-	-
31 December 2019			
Financial assets measured at fair value			
Debt securities	7,994	-	-
	7,994	-	-

Debt securities

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

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

Financial risk management

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

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

The Group is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- 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.

Notes to the Financial Statements continued

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

Significant increase in credit risk

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

The following is based on the procedures adopted by the Group for the year ended 31 December 2020:

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.

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 commercial 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.

The CRO reviews all applications that are outside the credit approval mandate of the Head of Credit due to the financial limit requested or if the risk rating is outside of policy but there is a rationale and/or mitigation for considering the loan on an exceptional basis and there is an agreed further escalation to the Board Risk Committee for the largest transactions.

Applications where the counterparty has a large relative overall size (for ratings 1-5), or where the counterparty has a medium relative size (for ratings 6 and above) are also escalated to the CRO for a review and approval decision based on a positive recommendation from Credit Risk department. Where a limited company has such a risk rating, the firm will consider the following mitigating factors:

- Existing counterparty which has met all obligations in time and in accordance with loan agreements,
- Counterparty known to credit personnel who can confirm positive experience,

- Additional security, either tangible or personal guarantees where there is verifiable evidence of personal net worth,
- A commercial rationale for approving the application, although this mitigant will generally be in addition to at least one of the other mitigants.

Identifying significant increases in credit risk

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

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

- A two-notch reduction in the Company's counterparty's risk rating, as notified through the credit rating agency alert system.
- A 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 cyclicity, 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. COVID-19 has presented unique challenges for most SME lenders and the Group has assessed these new challenges and its impacts on customers' ability to meet their obligations within the Strategic Report of this Annual Report.

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: $ECL = EAD \times PD \times LGD$

Notes to the Financial Statements continued

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 balance sheet date (31 December).

Maximum exposure to credit risk:

	2020 £'000	2019 £'000
Cash and equivalents	21,233	14,122
Loans and advances to customers	111,337	207,636
Trade and other receivables	347	1,440
	132,917	223,198

Collateral held as security:

	2020 £'000	2019 £'000
Fully collateralised		
Loan-to-value* ratio:		
Less than 50%	3,285	5,800
51% to 70%	9,166	12,793
71% to 80%	20,269	55,059
81% to 90%	27,143	41,446
91% to 100%	52,804	93,507
	112,667	208,605
Partially collateralised (loans over 100% loan-to-value)	68	255
Unsecured lending	524	589

* 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 comprises boats, motorcycles, recreational vehicles, caravans and industrial and agricultural equipment. The collateral has low depreciation and is not subject to rapid technological changes or redundancy. There has been no change in the Group's assessment of collateral and its underlying value in the reporting period.

The assets are generally in the counterparty's possession, but this is controlled and managed by the asset audit process. The audit process checks on a periodic basis that the asset is in the counterparty's possession and has not been sold out of trust or is otherwise not in the counterparty's control. The frequency of the audits is 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 principle products, the counterparty repays its obligation under a loan agreement with the Group at or before the point that it sells the asset. If the asset is not sold and the loan agreement reaches maturity, the counterparty is required to pay the amount due under the loan agreement plus any other amounts due. In the event that the counterparty does not pay on the due date, the Group's customer management process will maintain frequent contact with the counterparty to

establish the reason for the delay and agree a timescale for payment. Senior Management will review actions on a regular basis to ensure that the Group's position is not being prejudiced by delays.

In the event 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

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

31 December 2020 Credit rating	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2020 Total £'000
Above average (Risk rating 1-2)	52,978	-	-	52,978
Average (Risk rating 3-5)	42,271	8,092	-	50,363
Below average (Risk rating 6+)	8,574	634	710	9,918
Gross carrying amount	103,823	8,726	710	113,259
Loss allowance	(645)	(49)	(594)	(1,288)
Carrying amount	103,178	8,677	116	111,971

31 December 2019 Credit rating	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2019 Total £'000
Above average (Risk rating 1-2)	97,787	55	15	97,857
Average (Risk rating 3-5)	78,976	3,241	1,013	83,230
Below average (Risk rating 6+)	25,230	1,289	1,843	28,362
Gross carrying amount	201,993	4,585	2,871	209,449
Loss allowance	(340)	(41)	(1,028)	(1,409)
Carrying amount	201,653	4,544	1,843	208,040

See note 20 for analysis of the movements in gross loan receivables and impairment allowances in terms of IFRS 9 staging.

Analysis of credit quality of trade receivables:

	2020 £'000	2019 £'000
Status at balance sheet date		
Not past due, nor impaired	106	109
Past due but not impaired	39	36
Impaired	116	103
Total gross carrying amount	261	248
Loss allowance	(121)	(107)
Carrying amount	140	141

Notes to the Financial Statements continued

See note 22 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 £931,000 at 31 December 2020 (31 December 2019: £132,000).

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 process 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"), 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 2020 Financial assets	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
Cash and equivalents	21,233	21,233	21,233	-	-	-	-
Loans and advances	111,337	113,259	28,315	37,163	44,194	3,587	-
Debt securities	66,601	66,000	-	15,000	34,000	17,000	-
Trade receivables	140	261	261	-	-	-	-
Other receivables	207	207	20	1	36	150	-
	199,518	200,960	49,829	52,164	78,230	20,737	-

31 December 2019 Financial assets	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
Cash and equivalents	14,122	14,122	14,122	-	-	-	-
Loans and advances	207,636	209,449	52,363	68,726	81,727	6,633	-
Debt securities	7,994	8,000	2,500	5,500	-	-	-
Trade receivables	141	248	74	124	50	-	-
Other receivables	1,299	1,299	23	-	7	1,269	-
	231,192	233,118	69,082	74,350	81,784	7,902	-

Maturity analysis for financial liabilities

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

31 December 2020	Carrying amount	Gross nominal outflow	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	>5 years
Financial liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Preference shares	50	50	-	-	-	50	-
Customer deposits	145,982	147,982	-	663	59,793	87,526	-
Other financial liabilities	57	58	-	29	29	-	-
Trade payables	624	624	624	-	-	-	-
Other payables	2,928	3,135	1,893	959	-	283	-
	149,641	151,849	2,517	1,651	59,822	87,859	-
Loan commitments	-	3,766	3,766	-	-	-	-

31 December 2019	Carrying amount	Gross nominal outflow	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	>5 years
Financial liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Preference shares	50	50	-	-	-	50	-
Other financial liabilities	164,613	174,202	790	1,575	171,253	584	-
Trade payables	651	651	651	-	-	-	-
Other payables	3,847	3,847	2,628	1,219	-	-	-
	169,161	178,750	4,069	2,794	171,253	634	-
Loan commitments	-	4,656	4,656	-	-	-	-

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, DFC are in the process of setting up swap lines, which will allow the Bank to use interest rate swaps as a further mitigation tool for interest rate risk.

The portfolio sensitivity to interest rate shocks is tested against a range of scenarios including the six prescribed scenarios per the European Bank Authority ("EBA") guidelines on the management of interest rate risk arising from non-trading book activities.

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.

Notes to the Financial Statements continued

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

	2020 £'000	2019 £'000
Change in interest rate (basis points)		
Sensitivity of EVE +200bps	982	(853)
Sensitivity of EVE -200bps	(1,047)	875

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

	2020 £'000	2019 £'000
Change in interest rate (basis points)		
Sensitivity of profit +200bps	1,680	1,625
Sensitivity of profit -200bps (floored at 0%)	(84)	227

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.

33. Earnings per share

Analysis of number of shares in the periods:

	2020 No.	2019 No.
Number of shares		
At period end	106,641,926	106,641,926
Basic		
Weighted average number of shares in issue in the year	106,641,926	75,553,320
Diluted		
Effect of weighted average number of options outstanding for the year	-	-
Diluted weighted average number of shares and options for the year	106,641,926	75,553,320

Earnings attributable to equity holders:

	2020 £'000	2019 £'000
Earnings attributable to ordinary shareholders		
Loss after tax attributable to the shareholders	(13,603)	(13,504)
Adjusted loss	(13,603)	(11,379)

Earnings per share calculation:

	2020 pence	2019 pence
Earnings per share		
Basic	(13)	(18)
Diluted	(13)	(18)
Adjusted*	(13)	(15)

*The adjusted loss has been included as an alternative performance measure (APM) to provide further useful information. The

adjusted loss is calculated as the consolidated loss after taxation less the exceptional costs incurred in the period (see note 12 for further details). The adjusted EPS has been calculated by using the adjusted loss and the basic weighted average of shares in the period. See below calculation of adjusted loss:

	2020 £'000	2019 £'000
Loss after tax attributable to the shareholders	(13,603)	(13,504)
Less: exceptional items	-	2,125
Adjusted loss	(13,603)	(11,379)

34. Related party disclosures

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

Counterparty	Description of transaction	Amounts of transactions
TruFin	As detailed in note 30, the Group amended its existing loan agreement with TruFin Holdings Limited and made payments throughout the year ended 31 December 2020.	During the year ended 31 December 2020, the Group made a £5 million principal plus £348,000 of accrued interest payment to TruFin Holdings in June 2020. In response to the COVID-19 pandemic and stresses on the Group's liquidity, the loan agreement was renegotiated in August 2020. In December 2020, the Group settled the full liability to TruFin Holdings Limited comprising £8.9 million of principal, £443,000 of accrued interest and an arrangement fee of £180,000.
TruFin	Interest expense recognised within the period in accordance with the signed loan agreements with the TruFin Group.	In the year ended 31 December 2020, the Group recorded interest expense in relation to the loan agreements held with TruFin of £913,000 (2019:£813,000). At 31 December 2020, the Group had no outstanding liabilities.
Watrium	In August 2020, the Group conducted a share capital reorganisation to assist in the banking licence application with the PRA. Within this series of transactions, Watrium, a significant shareholder in the Group purchased shares from certain employees, including Directors of the Group.	Watrium bought shares at 38.5p from certain employees and the Company and also sold shares back to certain employees and the Company at 38.5p. The overall result of this transaction was that Watrium acquired an additional 1,023,882 Ordinary Shares in the Company for £394,123.
Director and Key Management Personnel	<p>Share transactions relating to share capital reorganisation</p> <p>In August 2020, the Group conducted a share capital reorganisation to assist in the banking licence application with the PRA. This reorganisation involved the buy-back and cancellation of certain existing shares and issuance of new shares held by managers and former managers. The reorganisation steps enabled the managers to repay loans, provided by the Company and entered in to prior to the IPO, that enabled the acquisition of their long-term incentive shares.</p> <p>Given the share restructure related to a technical matter, RemCo determined that the managers should not be disadvantaged on a net basis (after repayment of the loans and impact of differing personal taxation rules).</p>	<p>Gavin Morris sold 201,609 shares at 38.5p and acquired 116,202 shares at 38.5p. The net proceeds of this transaction were used to fully repay a loan from the Group of £32,882. Gavin Morris received 19,733 nil cost options (representing approximately 0.02% of the share capital of the Company at the time) under a Manager PSP Award and 74,074 options (representing approximately 0.07% of the share capital of the Company at the time) with an exercise price of 40.5p under a Manager CSOP Award.</p> <p>Key Management Personnel (excluding Directors) sold 1,326,355 shares at 38.5p and acquired 557,689 shares at 38.5p. The net proceeds of this transaction were used to fully repay loans from the Group totalling £295,936. Key Management Personnel received 814,018 nil cost options (representing approximately 0.76% of the share capital of the Company at the time) under a Manager PSP Award and 148,148 options (representing approximately 0.14% of the share capital of the Company at the time) with an exercise price of 40.5p under a Manager CSOP Award</p>

Notes to the Financial Statements continued

Director	<p>Director share transactions</p> <p>In accordance with the terms of the Distribution Finance Capital Holdings plc Performance Share Plan (the "PSP"), Carl D'Ammassa and Gavin Morris, have been granted nil-cost options over ordinary shares in the capital of the Company.</p>	<p>Carl D'Ammassa was granted nil-cost options over 900,000 ordinary shares of £0.01 each ("Shares"), representing approximately 0.84% of the share capital of the Company at the time. This grant was made in connection with Carl D'Ammassa's recruitment as Chief Executive Officer.</p> <p>Gavin Morris was granted nil-cost options over 200,000 Shares, representing approximately 0.19% of the share capital of the Company at the time. This grant has been made as an ordinary course award under the terms of the PSP.</p> <p>Further details of the conditions relating to these options is given in note 9.</p>
Director	<p>Director share transactions</p> <p>Along with all existing employees of the Group, Carl D'Ammassa and Gavin Morris, were granted additional nil-cost options over ordinary shares in the capital of the Company.</p>	<p>Carl D'Ammassa was granted nil-cost options over 5,000 Shares, approximately 0.005% of the share capital of the Company at the time. Gavin Morris was granted nil-cost options over 5,000 Shares, representing approximately 0.005% of the share capital of the Company at the time. These options have been granted as part of a grant of options to all permanent employees of the Company and will be subject to vesting over a three year period. Further details are set out in note 9.</p>
Director	<p>Some Directors invested in the personal savings products offered by the Bank. All deposits were aligned to the products and rates offered to the general market.</p>	<p>Not applicable</p>
Key Management Personnel	<p>Key Management Personnel share transactions</p> <p>In accordance with the terms of the Distribution Finance Capital Holdings plc Performance Share Plan (the "PSP"), Key Management Personnel have been granted nil-cost options over ordinary shares in the capital of the Company.</p>	<p>Key Management Personnel were granted nil-cost options over 20,000 Shares, approximately 0.02% of the share capital of the Company at the time. These options have been granted as part of a grant of options to all permanent employees of the Company and will be subject to vesting over a three year period. Further details are set out in note 9.</p>
Key Management Personnel	<p>Key Management Personnel share transactions</p> <p>In accordance with the terms of the Distribution Finance Capital Holdings plc Performance Share Plan (the "PSP"), Key Management Personnel have been granted nil-cost options over ordinary shares in the capital of the Company.</p>	<p>Key Management Personnel were granted nil-cost options over 485,000 Shares, representing approximately 0.45% of the share capital of the Company at the time. This grant was made as an ordinary course award under the terms of the PSP.</p> <p>Further details of the conditions relating to these options is given in note 9.</p>

35. Post balance sheet events

Placing of new ordinary shares

In February 2021 the Group announced a conditional placing of new ordinary shares with certain new and existing institutional and other investors which entered into a direct subscription agreement in respect of 72,727,273 new ordinary shares of one penny each ("Ordinary Shares") in Distribution Finance Capital Holdings plc at a price of 55 pence per placing share. The placing raised £40.0 million of additional capital before expenses and approximately £38.6 million after expenses. The placing was subject to shareholder approval at a general meeting on 22 February 2021 by which all of the Resolutions were duly passed on a poll at the General Meeting. Upon Admission, the enlarged share capital is comprised of 179,369,199 ordinary shares with one voting right per share. 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 £38,600,000.

A number of the Directors of the Group conditionally agreed to subscribe for an aggregate of 381,464 ordinary shares through the placing.

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 £38,600,000.

New office premises lease agreement

The Company signed a new lease agreement, effective from 1st April 2021, for office premises for the new Manchester headquarters. The lease agreement has a contractual term end date of August 2030 and a contractual break date of August 2025. The new office will support the Company to meet its growth ambitions over the forthcoming years as outlined within the Strategic Review section of this annual report.

The Company Statement of Financial Position

	Note	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Assets			
Cash and cash equivalents	5	203	20
Investment in subsidiaries	7	95,613	95,977
Trade and other receivables	6	154	617
Total Assets		95,970	96,614
Liabilities			
Amounts payable to Group undertakings	8	4,639	4,269
Trade and other payables	9	263	194
Financial liabilities	10	50	50
Other provisions	11	-	337
Total Liabilities		4,952	4,850
Equity			
Issued share capital	12	1,066	1,066
Merger relief	12	94,911	94,911
Retained (loss)		(4,595)	(4,213)
Own shares		(364)	-
Total Equity		91,018	91,764
Total Equity and Liabilities		95,970	96,614

The notes on pages 149 to 155 are an integral part of these financial statements.

Distribution Finance Capital Holdings plc recorded loss after taxation for the year ended 31 December 2020 of £704,000 (2019: £3.68 million). These financial results are derived entirely from continuing operations.

These financial statements were approved by the Board of Directors and authorised for issue on 20 April 2021. They were signed on its behalf by:

Carl D'Ammassa

Carl D'Ammassa
Director
20 April 2021

Registered number: 11911574

The Company Cash Flow Statement

	Note	2020 £'000	2019 £'000
Cash flows from operating activities:			
Loss before taxation	4	(704)	(3,681)
Adjustments for non-cash items and other adjustments included in the income statement	5	(2,243)	(196)
(Increase)/decrease in operating assets		460	(566)
Increase in operating liabilities		69	194
Taxation paid		-	-
Net cash used in operating activities		(2,418)	(4,249)
Cash flows from financing activities:			
Proceeds from intercompany loan		2,601	4,269
Net cash from financing activities		2,601	4,269
Net increase in cash and cash equivalents		183	20
Cash and cash equivalents at start of the year		20	-
Cash and cash equivalents at end of the period	4	203	20

The Company Statement of Changes in Equity

	Issued share capital £'000	Merger relief £'000	Retained (loss) / earnings £'000	Own shares £'000	Total £'000
Balance at 28 March 2019 - at incorporation	-	-	-	-	-
(Loss) after taxation	-	-	(3,681)	-	(3,681)
Consideration from initial public offering	1,066	94,911	(532)	-	95,445
Balance at 31 December 2019	1,066	94,911	(4,213)	-	91,764
(Loss) after taxation	-	-	(704)	-	(704)
Employee Benefit Trust	-	-	-	(364)	(364)
Share based payments	-	-	322	-	322
Balance at 31 December 2020	1,066	94,911	(4,595)	(364)	91,018

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 issued by the International Accounting Standards Board (“IASB”) in accordance with United Kingdom Generally Accepted Accounting Practice (“UK GAAP”).

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 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 2020, 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

	2020 £'000	2019 £'000
Net (loss) attributable to equity shareholders of the Company	(704)	(3,681)

Notes to the Company Financial Statements continued

5. Notes to the cash flow statement

Cash and cash equivalents:

	2020 £'000	2019 £'000
Cash held at bank	203	20
Total cash and cash equivalents	203	20

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

	Note	2020 £'000	2019 £'000
Management fee recharge		(1,973)	-
Transaction costs on equity raising recognised in retained earnings account		-	(533)
Movement in other provisions	11	(337)	337
Share based payments		67	-
Total non-cash items and other adjustments		(2,243)	(196)

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 year ended 31 December 2020.

6. Trade and other receivables

	2020 £'000	2019 £'000
Other debtors	50	50
Employee loans	-	461
Social security and other taxes	13	34
Prepayments	91	72
Total trade and other receivables	154	617

7. Investment in subsidiaries

	£'000
Balance at 28 March 2019 - at incorporation	-
Consideration from initial public offering	95,977
Balance at 31 December 2019	95,977
Dividend received from DF Capital Bank Limited	(364)
Balance at 31 December 2020	95,613

8. Amounts payable to Group undertakings

	2020 £'000	2019 £'000
Amounts payable to DF Capital Bank Limited	4,639	4,269
Total amounts payable to Group undertakings	4,639	4,269

9. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	97	1
Accruals	150	193
Social security taxes	16	-
Total trade and other payables	263	194

10. Financial liabilities

	2020 £'000	2019 £'000
Preference shares	50	50
Total financial liabilities	50	50

Reconciliation of movements in financial liabilities:

	Preference Shares £'000
Balance at 28 March 2019 - at incorporation	-
Non-cash changes:	
Incorporating shareholder	50
Balance at 31 December 2019	50
No transactions in the year	-
Balance at 31 December 2020	50

11. Other provisions

	At 31 December 2019 £'000	Additions £'000	Utilisation of provision £'000	Unused amounts reversed £'000	At 31 December 2020 £'000
Severance payments	337	2	(339)	-	-
	337	2	(339)	-	-

Notes to the Company Financial Statements continued

	At 28 March 2019 £'000	Additions £'000	Utilisation of provision £'000	Unused amounts reversed £'000	At 31 December 2019 £'000
Severance payments	-	377	(40)	-	337
	-	377	(40)	-	337

Further details regarding the severance payments onerous provision can be found in note 13 of the consolidated financial statements.

12. Share capital

	2020 No.	2020 £'000	2019 No.	2019 £'000
Authorised:				
Ordinary shares of 1p each	106,641,927	1,066	106,641,927	1,066
Allotted, issued and fully paid: Ordinary shares of 1p each	106,641,927	1,066	106,641,927	1,066

	Date	No. of shares #	Issue price £	Share capital £'000	Merger relief £'000	Total £'000
Balance at 28 March 2019 - at incorporation	28-Mar-19	1	0.01	-	-	-
Initial public offering	09-May-19	106,641,926	0.90	1,066	94,911	95,978
Balance at 31 December 2019		106,641,927		1,066	94,911	95,978
Issue of new shares	08-Sep-20	4,906,776	0.01	49	-	49
Buy back of shares	08-Sep-20	(4,906,776)	0.01	(49)	-	(49)
Balance at 31 December 2020		106,641,927		1,066	94,911	95,978

Refer to note 25 of the consolidated financial statements for further details on the share transaction during the year ended 31 December 2020.

13. Financial instruments

The Group monitors and manages risk management at a group-level and, therefore, the Risk Management Framework stipulated in note 32 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 32 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:

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 December 2020					
Financial assets not measured at fair value					
Trade receivables	-	-	-	-	-
Other receivables	63	63	-	-	63
Cash and equivalents	203	203	203	-	-
	266	266	203	-	63

31 December 2020					
Financial liabilities not measured at fair value					
Preference shares	50	50	-	-	50
Amounts payable to Group undertakings	4,639	4,639	-	-	4,639
Trade payables	97	97	-	-	97
Other payables	16	16	-	-	16
	4,802	4,802	-	-	4,802

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
31 December 2019					
Financial assets not measured at fair value					
Trade receivables	-	-	-	-	-
Other receivables	546	546	-	-	546
Cash and equivalents	20	20	20	-	-
	566	566	20	-	546

31 December 2019					
Financial liabilities not measured at fair value					
Preference shares	50	50	-	-	50
Amounts payable to Group undertakings	4,269	4,269	-	-	4,269
Trade payables	1	1	-	-	1
Other payables	-	-	-	-	-
	4,320	4,320	-	-	4,320

Notes to the Company Financial Statements continued

Maximum exposure to credit risk:

	2020 £'000	2019 £'000
Cash and equivalents	203	20
Trade and other receivables	63	546
	266	566

Maturity analysis for financial assets

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

	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
31 December 2020							
Financial assets							
Cash and equivalents	203	203	203	-	-	-	-
Trade receivables	-	-	-	-	-	-	-
Other receivables	63	63	13	-	-	50	-
	266	266	216	-	-	50	-

	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
31 December 2019							
Financial assets							
Cash and equivalents	20	20	20	-	-	-	-
Trade receivables	-	-	-	-	-	-	-
Other receivables	546	546	-	-	34	512	-
	566	566	20	-	34	512	-

Maturity analysis for financial liabilities

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

	Carrying amount £'000	Gross nominal outflow £'000	Less than 1 months £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
31 December 2020							
Financial liabilities							
Preference shares	50	50	-	-	-	50	-
Amounts payable to Group undertakings	4,639	4,639	-	-	4,639	-	-
Trade payables	97	97	97	-	-	-	-
Other payables	16	102	-	-	-	102	-
	4,802	4,888	97	-	4,639	152	-

	Carrying amount £'000	Gross nominal outflow £'000	Less than 1 months £'000	1 - 3 months £'000	3 months to 1 year £'000	1 - 5 years £'000	>5 years £'000
31 December 2019							
Financial liabilities							
Preference shares	50	50	-	-	-	50	-
Amounts payable to Group undertakings	4,269	4,269	-	-	-	4,269	-
Trade payables	1	1	1	-	-	-	-
	4,320	4,320	1	-	-	4,319	-

14. Post balance sheet events**Placing of new ordinary shares**

In February 2021 the Group announced a conditional placing of new ordinary shares with certain new and existing institutional and other investors which entered into a direct subscription agreement in respect of 72,727,273 new ordinary shares of one penny each ("Ordinary Shares") in Distribution Finance Capital Holdings plc at a price of 55 pence per placing share. The placing raised £40.0 million of additional capital before expenses and approximately £38.6 million after expenses. The placing was subject to shareholder approval at a general meeting on 22 February 2021 by which all of the Resolutions were duly passed on a poll at the General Meeting. Upon Admission, the enlarged share capital is comprised of 179,369,199 ordinary shares with one voting right per share.

A number of the Directors of the Group conditionally agreed to subscribe for an aggregate of 381,464 ordinary shares through the placing.

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 £38,600,000.