



**DF Capital**

Distribution Finance Capital Holdings plc

# **Annual Report and Financial Statements 2019**

Company Information

Distribution Finance Capital Holdings plc

Directors	John Baines <i>Independent Chairman</i> Mark Stephens <i>Senior Independent Non-Executive Director</i> Carole Machell <i>Independent Non-Executive Director</i> Thomas Grathwohl <i>Independent Non-Executive Director</i> Stephen Greene <i>Non-Executive Director</i> Haakon Stenrød <i>Non-Executive Director</i> Carl D'Amassa <i>Executive Director (Chief Executive Officer)</i> Gavin Morris <i>Executive Director (Chief Financial Officer)</i>
Company Secretary	Sarah Clark
Registered Office	196 Deansgate, Manchester M3 3WF
Registered Number	11911574
Independent Auditors	Deloitte LLP 1 New Street Square London EC4A 3HQ
Nominated Adviser and Broker	Macquarie Capital (Europe) Limited Ropemaker Place, 28 Ropemaker Street London EC2Y 9HD
Principal Solicitors	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Registrars	Equiniti Limited Aspect House, Spencer Road Lancing West Sussex BN99 6DA
Public Relations	Blue Pool Communications Limited 40b Gunter Grove London SW10 0UJ

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’. ‘Distribution Finance Capital Ltd’ is a wholly owned subsidiary of Distribution Finance Capital Holdings plc.

DF Capital, is a niche lender, providing working capital funding solutions to dealers and manufacturers across the UK.

We have ambitions to support the growth of poorly served SME businesses through a wider range of lending products and services. We believe we can best do this as a bank.

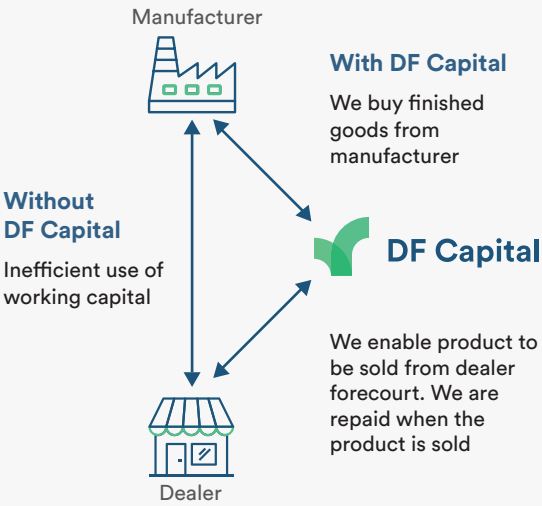
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# Business Overview

## Our business today: Inventory finance for dealers

### How we help



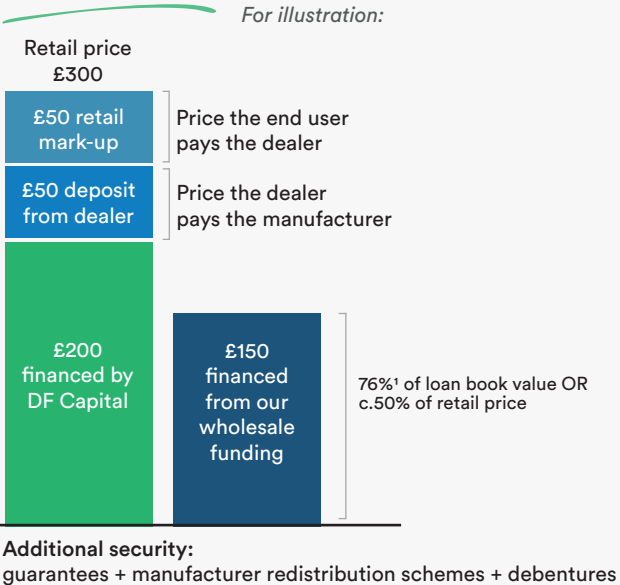
### Who we support

- Agricultural equipment
- Industrial equipment
- Marine
- Motor vehicles
- Recreational vehicles (includes motorhomes, caravans, lodges and holiday homes)

### Where we work

We support UK dealers and have now grown our team to 89 with offices in Manchester and London

### Our security and funding



### 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 these 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

## Strategic plan



### Expanding our SME lending

- Asset based lending
- Asset finance and leasing
- Commercial lending
- Invoice finance
- Short term working capital
- Geographic expansion

## Foundations of our proposition

- Product and industry expertise**  
Delivering in-depth product and industry knowledge to our customers
- Relationships**  
A business built on relationships, focused on supporting our customers
- Agility**  
Ability to react quickly to customer demand, products and services
- Technology**  
Technology led approach to product delivery
- Straightforward**  
Quality service and products that are easy to understand
- Expert**  
We apply our product and industry expertise to deliver practical solutions that work
- Flexible**  
A flexible approach that works in partnership with customers

<sup>1</sup> as at 31 December 2019.

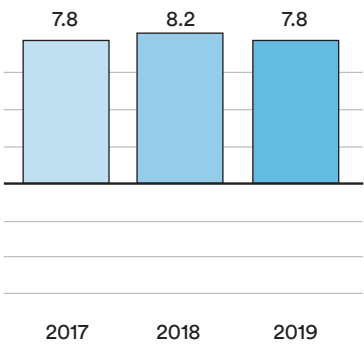
# Financial Highlights

For the year ended 31 December 2019

“It’s reassuring at this challenging time, to consider what the Group achieved in 2019, a true demonstration of the strength of our franchise and the quality of business we are building.”

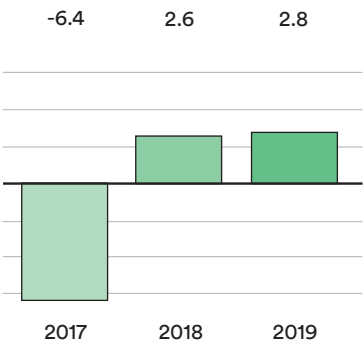
Carl D’Ammassa  
Chief Executive Officer

## Gross yield (%)



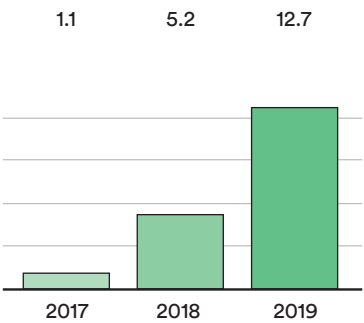
The effective interest rate we charge our customers including fees

## Net interest income (%)



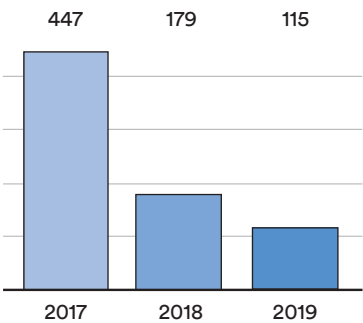
The rate of income earned from lending less the cost of wholesale funding

## Gross revenue (£m)



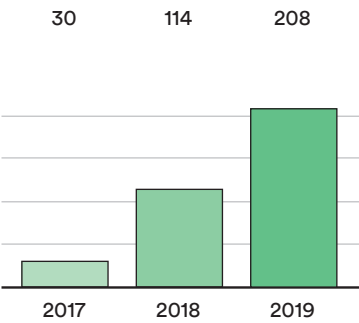
The interest and fees we earn on our loans

## Cost to income ratio (%)



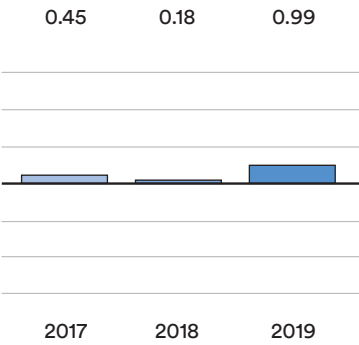
Operating cost as % of income generated

## Loan book (£m)



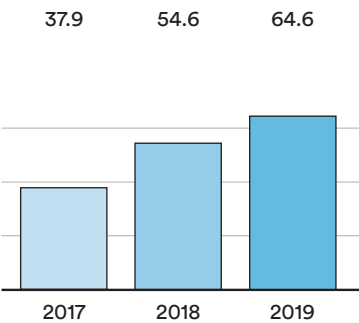
How much we have lent our customers

## Cost of risk (%)



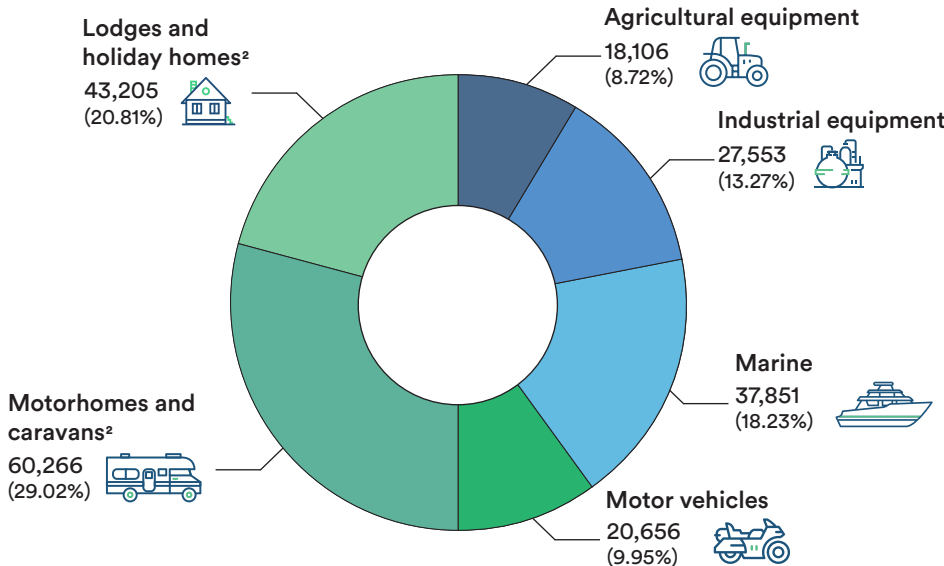
Impairments and provisions in the period as a % of avg. gross receivables

## Net assets (£m)



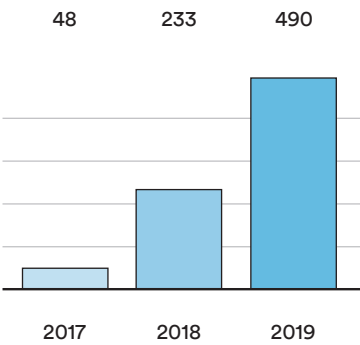
The equity held in the group

## Portfolio by sector - year end 2019 (£'000)



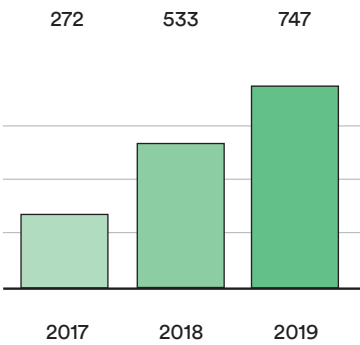
<sup>2</sup> Our recreational vehicles sector includes motorhomes, caravans, lodges and holiday homes

## New loans advanced to customers (£m)



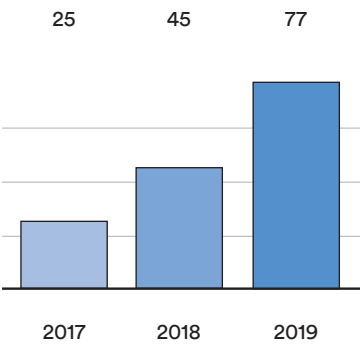
Volume of business our lending has supported throughout the year

## Number of dealer customers



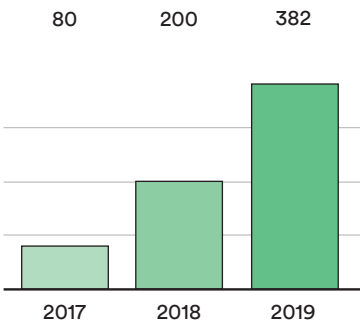
Number of borrower relationships

## Number of manufacturer partners



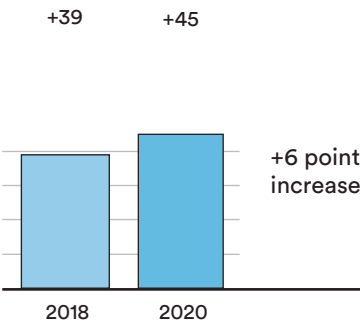
Number of vendors and manufacturers with whom we have programs that support our lending

## Total credit lines (£m)



Amount of credit available to our customers to draw

## Net Promoter Score



Measure of customer satisfaction on the basis of recommendation

+6 point increase

Read more about the financial performance on pages 14-17.

DFCH plc was incorporated in April 2019. The figures above for 2017, 2018 and to April 2019 relate to Distribution Finance Capital Limited. From May 2019 onwards they relate to the Group. The Group has adopted Merger Accounting so comparative information is prepared as if the Group had existed and been formed in prior periods.



# Chairman's Statement



**John Baines**  
Independent Chairman

**2019 proved a very busy year for the Group, not only in light of the demerger from TruFin plc and the separate listing on the AIM in May 2019, but also simultaneously progressing the bank licence application, unexpected changes in leadership and of course the continuation of the Group's growth strategy.**

Despite these diversions, it is pleasing to report a strong set of financial results for the year ended 31<sup>st</sup> December 2019. Growth has continued in our core activities, with the loan book up 82% to £208m, a clear indication of the demand for our products and services and the depth of relationship we have built with our customers. That being said, the momentum that continued through Q1 2020, has sadly been curtailed by the global public health crisis that has unfolded.

As a Board, given this is our inaugural annual report as a listed Company, we are clearly keen for shareholders to understand the progress the Group made during the year. Much of our commentary through this report centres on the year under review, however the prevailing challenges caused by COVID-19 necessitates that we share greater insight in to how we are responding to the situation and how our business is performing throughout the crisis.

## COVID-19

The impact of COVID-19 following the year end has been significant. Every aspect of society and the wider economy faces material challenges in an uncertain environment. Our dealers have been impacted by the lockdown that was announced on 23 March 2020 and accordingly we have had to adjust the way we work to support

them. DF Capital is neither insulated nor immune from this pandemic. The restrictions put in place led to many of our dealers and manufacturers closing their businesses, with the exception of a few in the agricultural and industrial sectors who remained open. Demand for new lending has, unsurprisingly, been modest during the period of lockdown and dealer stock turn slowed significantly.

Our employees have been key to our responsiveness and how successfully we have navigated the challenges of the lockdown period. We were quick to enable remote working, with all members of our team being able to work from home and continue to provide services to customers well before restrictions on movement were put in place.

At the time of publishing this report, we are starting to see lockdown restrictions relaxed. Our current assumption is that the impact of the pandemic will continue, in some form, into the autumn. That being said, whilst the Board anticipates an increase in demand later in the year, and indeed some sectors have shown relative buoyancy, the degree and speed with which we expect activity levels to increase remains uncertain.

In the Chief Executive Officer's Report (page 10), Chief Financial Officer's Report (page 14) and Report of the Directors (page 48), we provide more detail of our COVID-19 impact assessment, the management actions we are taking and how the business is currently performing.

We are pleased with the progress the Group made during 2019 and these results confirm the strength of our lending franchise and the underlying value of our proposition. Notwithstanding the existing public

health crisis, we continue to see opportunities to build on our existing proposition and launch new products, which we believe will be highly relevant to the market beyond 2020 as the economy recovers from the pandemic. Despite taking a more cautious approach given the levels of uncertainty and the challenging environment in which we operate today, we remain firm in our belief that shareholder value can be enhanced significantly over the longer term.

## Banking Licence & Governance

As highlighted at the time of the IPO, key to unlocking much of our near-term growth strategy is successfully obtaining a bank licence. Having resubmitted our application in early August 2019, we have continued to work closely with the regulators to progress the application, a process that can take up to 12 months to conclude. The Board is confident, having assessed the impact of COVID-19, that DF Capital would be a successful, well capitalised bank and accordingly this remains our primary funding strategy. Given the strength of relationship that we have with our SME dealers and manufacturers, we sit in an enviable place to support our lending ambitions, in line with the strategic plan we laid out at the time of listing.

We have continued to operate the Group throughout the year with a higher degree of governance than would be expected for a niche non-bank lender. This deliberate choice, in anticipation of becoming a bank, has served us well, as not only have we been in a perpetual state of readiness to receive the bank licence, but we also have the discipline and oversight framework in place to help us navigate challenging and uncertain periods such as the one we are currently facing.

Our deposit raising capability is well progressed, and fully tested, and accordingly we feel confident that we can quickly mobilise should the regulators grant the Group a bank licence.

## Funding

We are pleased with the growth in lending we have seen year-on-year. That being said, the absence of a bank licence and dependence on wholesale funding has limited the overall amount of lending we have been able to support. During the year we increased market share with our existing UK dealers and established credit lines of £381m. The Group's loan book peaked during Q1 2020 at £213m and at that time we saw significant opportunity for further lending growth; put simply, demand for our core lending products outpaced the capacity of our wholesale funding facilities.

Since the onset of COVID-19, we have seen the credit appetite of the Group's wholesale lenders curtailed as part of a market wide reaction to the economic environment. This has placed further constraint on our lending that, as dealers reopen for business, will not allow us to support demand at the levels seen prior to the lockdown. As a result, our loan balance stood at £186m as at 31 May; we expect this to continue to reduce until such time as dealer demand increases and we receive a bank licence or negotiate new wholesale funding terms.

Whilst these are unprecedented and challenging times, the depth of our relationships and strength of franchise are such that we still believe, in the post-lockdown environment, there is significant potential to grow lending again, either as a bank with deposit raising capability or through alternative wholesale finance as a specialist non-bank lender.

## Leadership

In November 2019, Chris Dailey left the Group, following an internal investigation into his personal conduct. Henry Kenner agreed to step into the CEO role whilst we completed the search for a permanent CEO. Henry and the Executive team worked tirelessly to ensure strategic momentum was not lost during this period, something for which we owe a significant amount of gratitude.

Carl D'Amassa was appointed permanent CEO in March 2020, bringing both depth and breadth of business leadership as well as SME lending experience to the Group. At the heart of our culture is a strong client focus, a can-do attitude and depth of personal integrity. We are confident that under Carl's leadership, not only will we be well placed to deliver on our growth ambitions, but continue to develop the positive entrepreneurial and client focused culture that has defined much of our success thus far.

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**At the heart of our culture is a strong client focus, a can-do attitude and depth of personal integrity.**

## Board Changes

On 13<sup>th</sup> May 2020, we announced changes to our Board's composition, welcoming shareholder representative directors, appointed under the relationship agreements as disclosed in our listing documents, to the Board. Stephen Greene represents Arrowgrass and Haakon Stenrød represents Watrium AS. As a Board and in line with the expectations of the regulators, we are focused on ensuring a balance in the Board's composition and overall independence of oversight and decision-making, and accordingly non-independents, Henry Kenner and James Van den Bergh agreed to step down. The changes of directors ensure the construct of the Board and the governance frameworks remain unchanged.

Henry and James's relationship with DF Capital stretches back to its formation in 2016. Both supported the business as it transitioned to being an AIM listed firm in its own right in May 2019. The entire Company is grateful for their support and we wish them both well for their future endeavours.

Our full year results truly demonstrate the momentum we have built during the firm's relatively short existence. We believe a solid foundation is in place for future growth and that our



strategy and proposition is resonating with the market. However, we are mindful that COVID-19 has presented additional challenges in navigating the post lockdown period. Given our response so far, the immediate post-lockdown performance of the business and the management actions we have in progress, the Board remains confident that the Group will have everything necessary in place for a successful future and, if a licence is awarded, to ultimately transition to a bank. This, combined with the right team, an appropriate culture, sizeable ambition and depth of client relationships puts us in a strong position to deliver the longer term growth we laid out at the time of our IPO; developing a well-capitalised leading SME lending franchise to deliver strong shareholder returns.

**John Baines**  
Independent Chairman

DF Capital has built an enviable array of relationships, financing many leading brand's distribution and dealer networks within five key industry sectors. With over 75 manufacturer or vendor partnerships whose UK sales are c.£2bn.



### Agricultural Equipment

#### Includes:

Combine harvesters, tractors, sprayers, balers, telehandlers, seed drills and ploughs.

We have manufacturer relationships with Dieci and Avant and support tier 1 dealers with stocking for leading brands such as SDF, Massey Ferguson and Mchale.



### Industrial Equipment

#### Includes:

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

Our partnerships include industry leading brands such as Terex on an array of their product lines such as Powerscreen, Finlay and Fuchs.



### Marine

#### Includes:

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

We support dealers who carry UK leading brands including Princess, Sunseeker and Fairline, as well as those from the US and Europe such as Bavaria, Greenline, Chaparral, Axopar, and Finnmaster.



### Motor Vehicles

#### Includes:

Motorcycles, all-terrain vehicles, transportation such as trailers or light commercial vehicles, but does not include passenger cars.

Our partners include brands such as Triumph Motorcycles (UK's largest motorcycle manufacturer), Ducati UK, the importer and distributor of Peugeot motorcycles, LDV's light commercial vehicle range, and Equi-Trek, the UK's largest horsebox manufacturer.



### Recreational Vehicles

#### Includes:

Motorhomes, caravans, holiday homes and lodges.

Our partnerships extend across these sectors, and include leading UK manufacturers such as Swift, Willerby, Bailey Caravans, Lunar Automotive, Prestige & Homeseeker, and Omar as well as European and global market leaders such as Erwin Hymer Group (part of Thor Industries), Carthago, Knaus and Pilote.



# Chief Executive Officer's Report



Carl D'Ammassa  
Chief Executive Officer

“

“Responsive”; “Helpful”; “Reliable”; “Efficient” are some of the many words our customers use to describe the Group.

At the time of writing, having been with DF Capital for just over 3 months, I am convinced that there are significant opportunities ahead for the Group, despite the current unprecedented uncertainty regarding the economic environment. COVID-19 has been, disruptive for our customers, their supply chains, our wider communities and of course our business. Whilst we expect this disruption to continue in the near-term, I believe as a Group, we have responded well to the crisis and I've seen first-hand what makes DF Capital different, the depth of relationships we have and the quality of our people and their commitment to support our customers. It's reassuring at this challenging time, to consider what the Group achieved in 2019, a true demonstration of the strength of our franchise and the quality of business we are building. The foundations we have in place will help the Group navigate this period of economic uncertainty.

## Commercial success and solid foundation for future growth

These financial results show that our niche lending proposition is in demand and has relevance for our customers; our loan book ended the period up 82% on 2018 at £208m. This was delivered through market share gains as we supported a larger number of dealers and their supply chains.

We signed up an additional 214 dealers bringing the total to approximately 750. Similarly, we secured a further 32 new partnerships with manufacturers and vendors resulting in 77 in total, which provides a further pipeline of dealers (of these manufacturers and vendors) that we can target for new lending in the post-COVID-19 environment. Across

our customer base the Group supported £490m of stock purchases during the period under review.

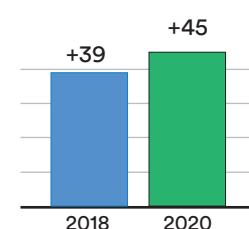
## Service Focused

DF Capital's proposition has three core foundations. We are:-

- **Flexible** – we work in partnership with our customers. We don't believe in a one size fits all approach to lending
- **Straightforward** – we deliver quality service to our customers and ensure our products are easy to understand and provided in the clearest way possible
- **Expert** – we offer a fresh approach to financial solutions, led by specialists who understand our customers and their needs

The entire DF Capital team live and breathe these principles in their customer interactions. We offer what could be described as an old-fashioned relationship management approach, with a modern digitally efficient operating model. It is therefore easy to understand why our customer satisfaction rating (net promoter score) exceeds most sector comparisons at +45 (up from +39 in 2018).

## Net Promoter Score (NPS)



“Responsive”; “Helpful”; “Reliable”; “Efficient” are some of the many words our customers use to describe the Group. We believe in continuous improvement and strive to offer a best in class service to our customers, leveraging new technology wherever we can. In October we launched

“DF Connect”, our market leading portal for dealers and manufacturers to transact business with us. With speed and ease in mind, DF Connect is a seamless and paperless solution that further strengthens our unique inventory finance proposition.

## Ready to be a bank

Since resubmitting our bank licence application in August 2019, we have continued to develop the business in line with our plans to operate as a bank. Our culture, approach to risk management and governance structures are all, in our opinion, “bank-ready”. Our approach to lending has stood up well during the COVID-19 pandemic and we feel that, had the licence been granted already, we would be a strong and stable banking franchise. In readiness, we have invested further in our deposit raising capability to make opening an account with us straightforward and digital. We are confident that, notwithstanding the on-going uncertainty and economic challenges, should the bank licence application be successful, we are mobilised and operationally ready to go.

## Our approach during the COVID-19 pandemic

We have been proactive in working with our dealers during the pandemic, adapting our approach and finding new ways to support them. During the lockdown, over 80% of our dealers were closed, with those in the industrial and agricultural sectors recording modest sales. Since lockdown on 23 March, we have experienced lower demand for our lending, funding only £7m of new assets whilst seeing client repayments of £26m to the end of May. Accordingly, our loan book stood at £186m at 31 May, funding 6,407 assets (Dec 2019: 7,318). Fortunately, many of our dealers and manufacturers have been able to access Government support schemes including the Coronavirus Job Retention Scheme and the Coronavirus Business Interruption Loan Scheme (‘CBILS’), which has helped them weather the last few months of lockdown.

Our support to dealers has been configured to suit their immediate and individual needs. Those who had sold assets we held as security but wanted to retain vital working capital from the sales proceeds, have pledged new unencumbered assets to us. This has seen our security position improve and our loan to wholesale value decrease to 80% at end of May 2020 (Dec 2019: 84%).

Since many dealers have been closed during the lockdown, their ability to sell assets and accordingly repay the Group on contractual due dates has been constrained. The repayment of our loan principal is predominantly on the basis of assets being sold by the dealer. In light of significantly reduced forecourt footfall and reduced sales, we have supported c. 35% of our dealers, who have passed particular credit risk checks, by temporarily deferring the repayment of loan principal. Unsurprisingly, we have seen the typical time dealers use our lending extend to 222 days based on repaid loans during May 2020, compared to 144 days at the same time last year, as they complete fewer sales during the lockdown period. We expect this to increase further over the summer months. In both May and June we have seen fewer requests, down 65% and 90% respectively, for temporary principal deferrals compared to April. During any period of deferral, interest and fees have continued to be charged and accordingly paid by the dealers.

Our intensive portfolio management, alongside the temporary support we have extended to dealers throughout the lockdown period, has seen the level of arrears compare favourably to pre-pandemic periods. Since lockdown we have implemented remote audit processes and new technology solutions to help monitor the portfolio and our security position. At the time of writing, we have reinstated physical audits, conducted with social distancing protocols to protect our employees and customers. From the lockdown easing on 1 June through to 12 June, 54% of our assets had received a physical inspection by our staff and 14% validation by our dealers through DF Check, our new remote asset auditing tool. So far in 2020, we have seen only three dealer insolvencies (2019: 10), of which we have made a full recovery in two cases and in the third we have been able to fully recover our security position. Whilst we anticipate further increases in impairments over time, the current position has been much lower than we had anticipated and modelled in our COVID-19 impact analysis.

Although we are not complacent about the level of uncertainty ahead and the threat of further restrictions through a second lockdown, we are pleased with the portfolio performance, how our team has responded and the positive impact our approach has had on our dealers working capital and ability to reopen their operations since late May.

Arrears comparisons through lockdown period	31 December 2019	12 June 2020
<b>Arrears (£'000) - principal repayment, fees and interest</b>		
0-30 days past due	643	156
31-60 days past due	225	163
61-90 days past due	87	24
91 days + past due	762	969
	<b>1,717</b>	<b>1,312</b>
<b>Associated principal balance (£'000)</b>		
0-30 days past due	5,505	1,077
31-60 days past due	482	164
61-90 days past due	226	108
91 days + past due	857	1,358
	<b>7,070</b>	<b>2,707</b>



## Opportunity for further growth

Whilst cautionary about the near-term economic outlook, our core product is positioned to support the £50bn distribution finance market. The vendor and manufacturer relationships we have established have estimated annual sales of c. £2bn. We believe our proposition is unique and our growth profile over recent years demonstrates a strong client need. In light of this, we see capacity to further grow our market share with both existing and new relationships, as markets stabilise, and we unlock our ability to support new lending through the agreement of new funding in 2020.

We believe strongly that SMEs remain poorly served by existing lenders. Lending decisions are often slow and rarely a positive experience for small businesses. The significant funding gap for SMEs is well reported and we expect this to widen in the post-pandemic environment. These market dynamics present us with further opportunities to apply our relationship approach to lending across a wider suite of SME focused products delivered with ease and speed through efficient processes and modern legacy-free technology solutions. Leveraging our relationships with SME dealers and manufacturers we see opportunity in the medium term to not only support them directly with a wider range of products and services but also assist their supply chains. Short-term working capital, asset finance and leasing, invoice finance, commercial lending and asset backed lending, as well as geographical expansion of our core product, all present future growth opportunities. These markets are large and modest single digit market share presents a significant opportunity for the Group.

“

We believe our proposition is unique and our growth profile over recent years demonstrates a strong client need.

## Funding strategy unlocks the pace of growth

As we have proven by entering into the revolving mezzanine credit facility immediately following our IPO, we can

quickly unlock material growth when we have access to additional liquidity. Whilst an expensive transitional funding option, which increased our effective wholesale funding rate to 6%, it has allowed us to support more dealers and manufacturers with our core lending product and test elements of our growth plan.

We believe the pace of our growth will be defined predominantly by our funding strategy. Our priority is to progress the bank licence as this unlocks our growth plans more rapidly, offers the most flexibility to support lending and product development, whilst also delivering stronger financial returns given the lower cost of funding through deposit raising.

However, should the Group not be granted a bank licence, cost efficient and product appropriate channels of wholesale finance need to be in place. COVID-19 has presented significant challenges given the tightening of credit appetite from our existing lenders, something that we understand is a market wide reaction to the pandemic rather than specifically in relation to DF Capital. In parallel to working with the existing lenders, the Group is exploring alternative wholesale financing and partnership models. We believe that these alternatives whilst supporting our current pre-bank lending activities, could work in tandem with any deposit raising capability, as part of a diversified funding strategy.

The Group's application to participate in the British Business Bank's ("BBB") Enable Funding Scheme is progressing and we believe that developing a relationship with BBB will allow us to consider other schemes aimed at supporting bank and non-bank lending to SMEs, including funding CBILS and credit guarantees.

We are already seeing dealers start to re-open their forecourts and resume sales. Many started to prepare for a relaxation of restrictions during May. Since 1 June, we have seen average repayments of c.£1m per day, which should this trend continue, will see our loan book reduce significantly over the summer months. As manufacturers start to re-open their facilities, we expect stock will flow to dealers and our lending products will be in demand.

Whilst this is a positive dynamic, we believe that our ability to respond to the increasing demand from dealers and accordingly the Group's pace of growth will be impacted, until such time as we are granted a bank licence or agree new wholesale funding terms with existing or new lenders.

## Financial Performance

Our primary strategic objective is to build a strong SME lending bank franchise. We have continued to invest in the infrastructure to support scale distribution of our existing inventory finance working capital products. Our financial results for 2019 are in line with our expectations and accordingly we are still loss making. Despite strong loan book growth, and in light of the slower than anticipated bank licence application process, we have seen the cost of existing wholesale facilities dampen our net interest income, particularly since entering into the transitional revolving mezzanine finance facility.

Lower cost of funding and greater flexibility in the use of liquidity, coupled with growth and an efficient technology led operating model would, in our view materially enhance overall profitability and returns. Improvements in these remain strategic imperatives for the Group as we look beyond the challenges of 2020 and build our SME lending franchise.

## Our People – they make the difference

I'd like to extend a thank you to the entire DF Capital team. They have worked tirelessly to build the success of our business. They unlock so much of our potential by being great at what they do. Right across the Group we have seen colleagues' step-up to make a difference during this public health crisis. There has been a team-spirit that has run through the organisation, has kept everyone motivated and no-one ever feeling alone. I'm exceptionally proud of the team culture and I am confident that together we'll build a better future and deliver enhanced shareholder value in the post-pandemic environment.

**Carl D'Ammassa**  
Chief Executive Officer

“I've seen first-hand what makes DF Capital different, the depth of relationships we have and the quality of our people and their commitment to support our customers.”

**Carl D'Ammassa**  
Chief Executive Officer



# Chief Financial Officer's Report



Gavin Morris  
Chief Financial Officer

“

As an early stage growth business, we have made on-going investment in people, processes and technology to support our lending franchise and growth ambitions.

## Strong loan book growth and increasing gross revenues

During the year ended December 2019, the Group delivered record loan book growth; at the end of the year the loan book stood at £208m up 82% on 2018. We maintained a disciplined approach in terms of lending criteria and continue to operate within our Board approved credit risk appetite.

Growth was achieved across all five sectors in which we lend and accordingly we saw increased sector diversification during the year. To deliver the core inventory finance business plan, we continued to support larger facility limits and developed new manufacturer program relationships, both enabled by the extension of our wholesale financing.

In line with the loan book growth, gross revenues (which are predominantly comprised of interest and facility fees) increased by 144% to £12.7million. In light of the increasing penetration of larger manufacturer and vendor programs, we saw a 40bps reduction in asset yield to 7.8% over 2018, as these programs tend to offer a higher volume of lending at a lower yield but higher credit quality, in light of the manufacturer repurchase or redistribution agreements available under these programs in event of dealer default.

## Stable Net Interest Income

Net Interest Income (which is gross yield less interest expense) increased marginally during the period to 2.8% (2018: 2.6%). This was largely a function of changes to our interest expense and specifically the impact of redeeming £3.9m of preference shares (including accrued interest) in April 2019 held by TruFin Holdings Ltd with the difference between the interest accrual methodology and the contractual interest rate for the purpose of redemption resulting in a write back

of interest cost, which increased Net Interest Income by 0.3% (see note 6 of the Consolidated Financial Statements). Excluding the impact of this write back, the interest expense in the year, as a percentage of average customer receivables, would have been 5.5%, which was flat year-on-year.

During 2019, our senior lending facility was increased from £100m to £155m. At the time, the Group was optimistic that its bank licence would be granted in short order and as a result, to support demand from customers and test growth assumptions prior to receiving the licence, the Group entered into a revolving mezzanine credit facility of £40.3m in June 2019. These larger wholesale facilities have allowed increased lending capacity, however, came at the expense of higher funding costs which increased to an effective rate of 6% (2018: 4.5%), expressed as a percentage of wholesale debt. As at December 2019 the wholesale funding drawn was £150m (December 2018: £59m).

The Group's primary strategy remains becoming a bank and as a result, both wholesale facilities run concurrently to December 2020, by which time the Group expects they will be replaced through a combination of new wholesale terms and deposit raising should a bank licence be granted. However, as announced in November 2019, given the early amortisation event triggered as a result of our previous CEO leaving the Group, combined with the COVID-19 pandemic the Group has been operating under temporary waivers secured with both its lenders, with the current waiver running until end September 2020. Should terms not be agreed beyond September 2020, the facility will run down as dealer loans are repaid. This would curtail the ability to fund new customer originations in the absence of new funding being available either through deposit raising as a regulated bank or new wholesale terms being finalised. Further information of

the mechanics of this facility run down is provided in note 34 of the accounts.

## Loan impairments rise but are in line with expectations

In normal circumstances, as we build our loan balances and the UK economy moves through the economic cycle we would expect the absolute impairment charge to continue to increase in line with that growth. Impairment charges and provisions for the period reached

£1.6m (2018: £0.12m). The year-on-year increase relates predominantly to an IFRS 9 Stage 3 impairment allowance driven by losses from 4 individual dealers. These dealers are being pursued for recoveries under additional security held by the firm. As a % of average gross receivable, the Group's loss rate for 2019 was 0.99% (2018: 0.18%). The impairment allowance at December 2019 as a % of gross receivable was 0.67% (December 2018: 0.15%).

Summarised Statement of Profit or Loss and Other Comprehensive Income	2019 £'000	2018 £'000
Gross revenues	12,655	5,179
Interest expense	(8,207)	(3,503)
<b>Net income</b>	<b>4,448</b>	<b>1,676</b>
Operating expenses	(14,051)	(8,654)
Finance costs	(29)	-
Impairment charges	(1,582)	(116)
Provisions for commitments and other liabilities	(165)	(171)
Exceptional items	(2,125)	-
<b>Loss before taxation</b>	<b>(13,504)</b>	<b>(7,265)</b>
Taxation	-	-
<b>Loss after taxation</b>	<b>(13,504)</b>	<b>(7,265)</b>
Other comprehensive income	4	1
<b>Total comprehensive loss</b>	<b>(13,500)</b>	<b>(7,264)</b>

Portfolio by sector (Net Loan receivables)	December 2019 £'000	December 2018 £'000	Change 2018-2019
Agricultural Equipment	18,106	4,363	315%
Industrial Equipment	27,553	17,955	53%
Marine	37,851	25,449	49%
Motor Vehicles	20,656	9,697	113%
Recreational Vehicles <sup>3</sup>	103,471	56,332	84%
<b>Loan receivables</b>	<b>207,636</b>	<b>113,795</b>	<b>82%</b>

<sup>3</sup> Includes motorhomes, caravans, lodges and holiday homes.



## COVID-19 impact assessment

In light of COVID-19 we have conducted an impact assessment. This analysis aligns to common practice for banks and aids the assessment of the Group's capital and liquidity position through a number of scenarios. This scenario analysis, both as a bank and non-bank, lays out severe potential impacts on the Group's performance and identifies realistically achievable management actions to mitigate the downside risks.

In these severe scenarios, it is assumed that the impact on our dealers of lower sales extends for six months to October 2020, leading to elevated impairments during that period due to dealer insolvencies and significantly slower retail sales. Additionally, the impact of constrained wholesale funding until the existing facilities mature in December 2020 has been considered; the analysis suggests that the Group can, with appropriate and achievable management actions, withstand the stress impact of COVID-19.

Whilst the on-going impact on our dealers of the pandemic remains uncertain and difficult to predict, the severe downside scenarios are considered unlikely. The current performance to date set out below is considerably better than these downside scenario impacts assumed:

Impact	Our assumptions	Current position	Comment	Comparison to downside assumption
Dealer sales and demand impacted for 6 months to October 2020	Loan Book drop to £180m end June 20	Loan book dropped to £171m - 17 June 2020	Dealer repayments are currently running at c£1m per day, which will see the wholesale funding facility repaid more quickly.	This is materially favourable to our downside liquidity assumptions
Stock Turn extended with repayments reduced by c85% during period of impact	c250 days	222 days - 30 May	Repayments have increased since lockdown relaxed - anticipated run-rate of c£1m per day will continue, which will see stock turn start to increase and loan book drop more quickly	This is favourable to our downside liquidity assumptions
Increased impairments, through sale out of trust and dealer insolvencies to October (4% annualised loss rate)	Year to date write offs of £0.4m to end of May	Year to date write offs less than £0.1m to end of May	Drivers of impairments, such as dealer insolvencies and loss of asset security, are trending well within our downside assumptions	This is materially favourable to our downside liquidity assumptions
Bank licence application	By August 2020 - subject to regulatory approval		Scenarios have been constructed with and without a successful bank licence application	This is in line with our liquidity assumptions
Wholesale funding	Wholesale funding enters early amortisation from start of July through to Q4 2020 with inception of new facility terms <sup>4</sup>	Wholesale funding waiver confirmed to end September 2020 allowing some new lending.	British Business Bank Enable Funding application progressing.	This is favourable to our downside liquidity assumption
TruFin Loan Repayment	Repaid in line with contractual terms at December 2020 or >100 days from bank licence	Consideration is being given to a rescheduling of the final repayment to 2021 with positive discussions underway.	If rescheduling is achieved this will strengthen the firm's liquidity position at December 2020	This is in line with our liquidity assumptions

<sup>4</sup> Further information of the mechanics of this early amortisation run down is provided in note 34 of the accounts.

## Strong security position

As a niche lender, we provide working capital to UK dealers secured against their inventory or stock. We advance funds to them at a discount to the wholesale invoice price charged by the manufacturer. Through the period of lockdown, the value of dealer loans outstanding compared to wholesale value ("Loan to Value") has reduced to 80% (December 2019: 84%), which in turn has improved our security position.

We do not advance against retail prices, which typically represent a mark-up of 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.

The existing wholesale funding facility supports our lending proposition by advancing funds against eligible loans at a discount to the receivable or loan balance, typically advancing to a maximum of 82%. At the end of the year the wholesale funding as a % of loan book stood at 76%, with further reductions to 68% at 31 May 2020.

## IPO extraordinary costs

In May 2019, the Group demerged from its parent company TruFin plc and

listed on the Alternative Investment Market ("AIM"). The demerger incurred an exceptional cost of £2.1m and a further one-off operating cost (director and senior management bonuses paid in relation to the IPO) of £1.1m. These bonuses were predominantly to cover the cost of loans advanced in relation to tax liabilities on individual share awards.

## Investing in our infrastructure to support growth and be "bank ready"

As an early stage growth business, we have made on-going investment in people, processes and technology to support our lending franchise and growth ambitions. During the period we sought to operate like a bank, which required enhanced operating structures, governance frameworks and risk management procedures. The absence of a bank licence has effectively seen all of the costs of being a bank absorbed by the Group without the benefit of significantly reduced cost of funds.

Operating expenses increased during the period to £14.1m (2018: £8.65m) which includes the one off IPO operating cost of £1.1m referred to above. In line with our business plan, we continue, to be loss making at this stage and pre-bank licence status.

In light of COVID-19 and the position of our lenders, we expect the loan book to gradually shrink until such time we agree new wholesale terms or initiate deposit raising, which is conditional upon being granted a bank licence.

As previously indicated, the Group is pursuing both these avenues to unlock significant demand from our existing customer base, expected even in the post-pandemic environment. As a result, we have continued to focus on our current product set delaying the launch of new growth initiatives. Accordingly, and in light of the likely impact of COVID-19, we re-aligned our cost base to reflect this focus on the near-term business plan and anticipated lower business volumes. These changes will result in an annualised cost saving of £1.5m. Should the bank licence application prove unsuccessful and an alternative business model pursued with new wholesale terms in place, we have identified further cost savings which can be quickly implemented to support a non-bank lending proposition.

## Resilient capital base

The Board believes that we have a strong capital base to support our ambitions to be a bank. Had the Group been a bank at year-end, our effective CET1 ratio was c.30%. Equity increased to £64.6m during the period (2018: £54.6m). The periodic test and analysis of the Group's capital resilience, completed in light of COVID-19, reaffirms the Board's belief that the Group can, following identified management actions, operate well within anticipated regulatory minimums.

**Gavin Morris**  
Chief Financial Officer

Our security position - loan to wholesale and loan to retail value	31 December 2019			31 May 2020		
	£'000	Loan to wholesale value <sup>5</sup>	Loan to retail value <sup>6,7</sup>	£'000	Loan to wholesale value <sup>5</sup>	Loan to retail value <sup>6,7</sup>
Motorhomes & Caravans	60,266	85%	72%	56,948	82%	70%
Lodges & Holiday Homes	43,205	94%	80%	45,358	90%	77%
Marine	37,851	71%	58%	35,009	71%	58%
Industrial Equipment	27,553	82%	67%	21,498	75%	61%
Motor Vehicles	20,656	88%	73%	16,172	81%	67%
Agricultural Equipment	18,106	82%	70%	11,478	76%	65%
<b>Total Portfolio</b>	<b>207,636</b>	<b>84%</b>	<b>70%</b>	<b>186,463</b>	<b>80%</b>	<b>68%</b>

<sup>5</sup> Wholesale price is the invoice value paid by the dealer to the manufacturer.

<sup>6</sup> Retail price is the invoice value paid by the end user or purchaser of the asset.

<sup>7</sup> Calculated using IFRS9 assumptions.



# Our People Strategy

Our people are what makes DF Capital different. They unlock so much of our potential by being great at what they do. They are straightforward in how they support our customers, expert in their approach and flexible with their solutions. That's the DF Capital way.

To support these cultural foundations, we are committed to providing the best opportunities for our employees to grow and develop, whilst ensuring they feel engaged with our corporate and strategic objectives.

## Growing, building and developing our team

We have sizeable ambitions as a Company and we are early in our growth phase. We also want to become a bank, as we believe that accelerates profitable growth. Over the last year we have made investments not just in our operational and commercial teams but also technical experts who can help us be a successful banking franchise. Deposit raising is core to our funding strategy and as part of our bank-ready plan we've built out our retail deposit operational team. We've cross trained team members so they have varied roles and can support our customers across a broad spectrum of activities.

## Attracting the best

Our recruitment strategies are focused on us hiring the best experts in their field. Our employee benefits stretch far beyond an attractive basic salary. Our aim is that our employees feel supported and protected.

Every employee has access to our eyecare scheme, income protection, life assurance and gym membership. We contribute 10% of their salary to employee pension arrangements too. Private healthcare is provided to all and enhanced cover is now in place to protect mental health illnesses.

## Investing to retain

We see employee retention as a key component of our people strategy. Our growth ambition is such that we can give our team members rich and varied roles and experiences. We look to promote from within and over the last year twelve of our colleagues received promotions. Our training extends both internally and externally as part of a programme of continuous development. Often our teams participate in industry and sector training to deepen their product and market expertise.

We support university students through placements, specifically in finance, operations and marketing.

## Managing risk well is how we do things at DF Capital

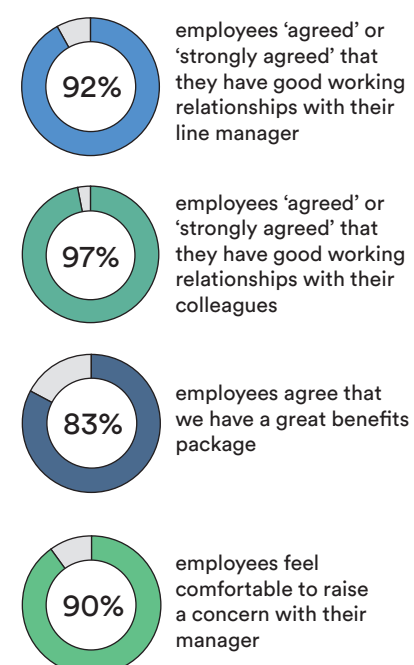
Good risk management is in everyone's DNA at DF Capital. We believe that sustainable profitability and the success of our business model will be defined by how well we manage risk. Every employee understands the risks in their area (not just credit risk), has opportunity to make improvements to our risk management approach and receives compliance and conduct training as a matter of course. We talk about managing risks and have a culture of continuous improvement.

## Caring about our people and what they think

We aim to provide an engaging working environment. Our team work hard, so we want them to enjoy what they do and the teams they work in. We seek

regular feedback, through a two-way approach to communication. Our 2019 Employee Engagement survey, where 71% of colleagues responded, demonstrated that DF Capital has many strengths, but also that we have some areas to improve in 2020; particularly around senior management engagement and communication. The tone of the organisation is set from the top. We've already starting to make major in-roads in this area particularly on the back of COVID-19.

## Employee Engagement Survey highlights



“We believe that great people, who are engaged and enjoy their work, will help us build a great business! That's the essence of our people strategy.”

Carl D'Amassa  
Chief Executive Officer

We hold weekly informal online video “get-togethers”, hosted by members of the executive team. We have set up a social media platform for colleagues to chat “non-work”, share social ideas with each other and most importantly ensure everyone feels engaged – not lonely – whilst working remotely. It's our virtual office environment.

During the year we developed our approach in supporting our team's mental wellbeing. We've trained company-wide Mental Health First Aiders and set-up drop-in sessions for employees to chat to colleagues who are appropriately trained to support their team-mates mental health needs, always in total confidence.

## We support our communities

Over the past year we have focused our charity efforts on supporting Wood Street Mission in Manchester. We've donated books, had sponsored 5 and 10 kilometer runs and a group of colleagues have come together to collectively run the distance from Manchester to New York.

Giving back to the communities in which we live and work, has demonstrably knitted together our own DF Capital community.





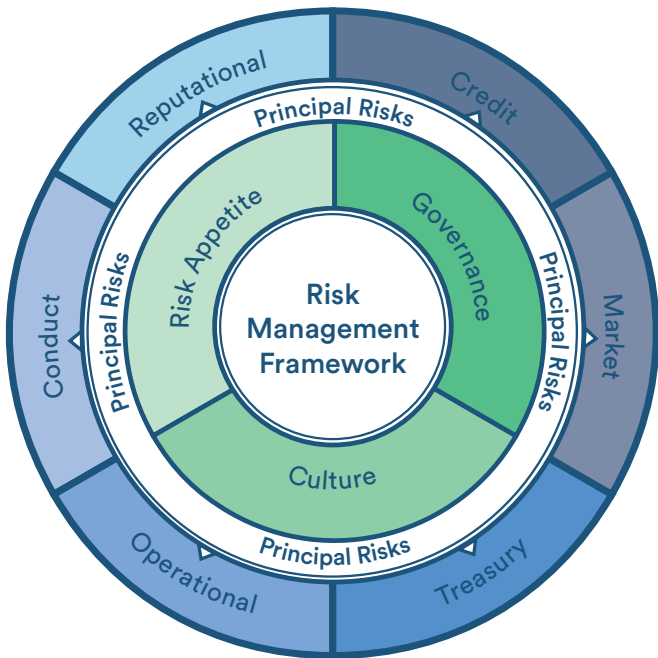
# Risk Overview

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# Risk Management Framework

DF Capital has developed and follows a framework which outlines how we define and manage risks which are relevant to its business model and operations. The Risk Management Framework creates a 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 and where necessary we update the framework which then leads to updates in our policy or governance process to ensure that the new or amended approach for managing a current or new risk has been consistently implemented.



## 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. 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. [See Corporate Governance section for more detail.]

## 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. During the past year particular emphasis was put on staff engagement – with a company-wide staff survey conducted in Q4 2019 – and whistle blowing – for which there is a specific policy and annual training of all staff.

## Risk Appetite

The risk appetite 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 in a number of risk metrics and limits which are monitored by the Company on an ongoing basis.

The Board reviews the “Risk Management Framework” 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 day-to-day risk management, risk oversight, and independent assurance over the effectiveness of risk management and oversight.

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

### First line of defence

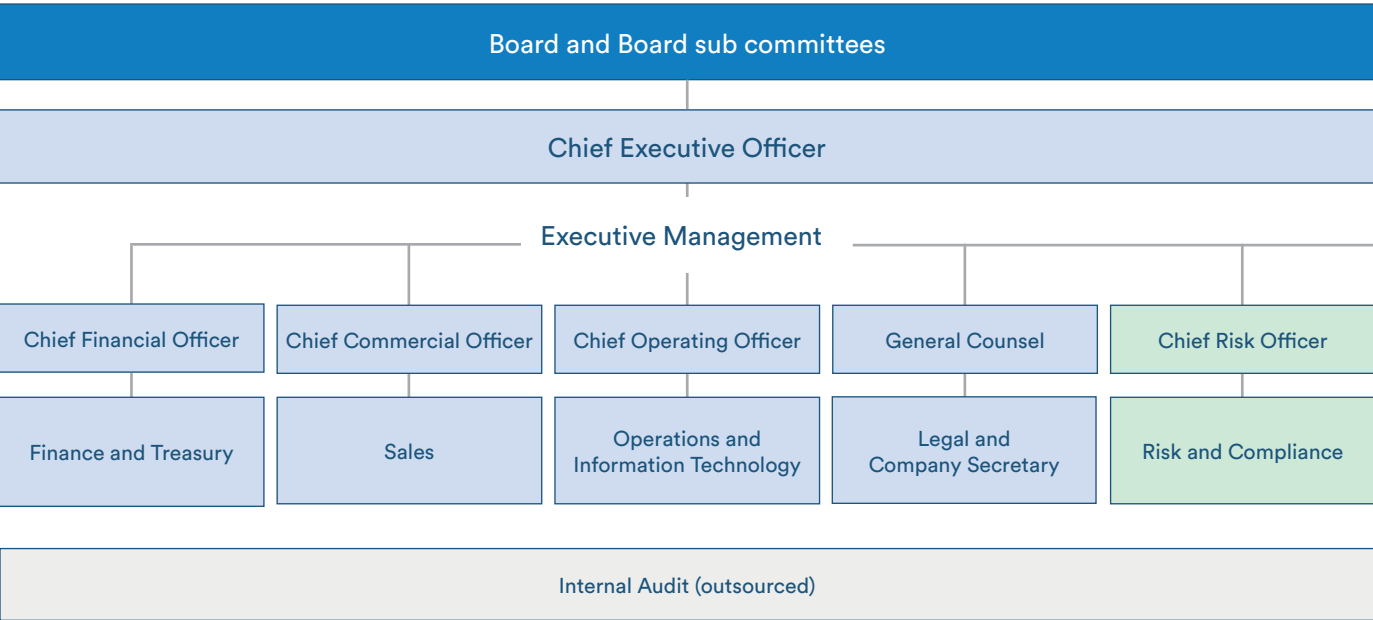
Business lines, finance, treasury, operations, IT, legal and company secretary functions act as the first line of defence and are responsible for identifying, assessing, mitigating, managing and reporting risk.

### Second line of Defence

Risk and compliance functions act as the second line of defence and provide effective challenge to the first line to ensure risks are identified and effective controls are established.

### Third line of defence

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



# Principal Risks

We have defined 6 categories of “principal risks” which shape our approach to risk management. These principal risks create structure for our policies and risk frameworks and provide clear ownership and responsibility for assessing performance and completeness.

## Principal Risks

<b>Credit Risk</b>	Credit risk is the risk of financial loss arising from a customer or counterparty failing to meet their financial obligations to DF Capital. We take a proactive approach to monitoring the credit risk of our commercial lending operations through regular contact and review of customers, including frequent asset audits to verify the collateral status throughout the life of the loan. Policies are in place to manage the Group's credit and counterparty risk covering the roles and responsibilities of our credit, treasury and operations teams across client onboarding, approval, on-going monitoring and, when necessary, recovery.
<b>Treasury Risk</b>	<p>Treasury Risk covers three interconnected risks relating to the management of DF Capital's balance sheet. They are:</p> <ul style="list-style-type: none"> <li>• <b>Funding and Liquidity Risk:</b> 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 commercial lending.</li> <li>• <b>Capital and Earnings Risk:</b> The risk that DF Capital has an insufficient amount or type of capital to support the regulatory requirements of its business activities through normal and stressed conditions.</li> <li>• <b>Interest Rate Risk in the Banking Book (“IRRBB”):</b> The risk of financial loss through un-hedged or mismatched asset and liability positions due to changes in interest rates.</li> </ul> <p>Roles, responsibilities, and requirements with respect to Treasury Risk management are outlined in relevant policies, with the setting of risk appetite further supported by the firm's regulatory documents (ILAAP<sup>1</sup>, ICAAP<sup>2</sup>, and RRP<sup>3</sup>).</p>
<b>Market Risk</b>	We define Market Risk as the financial risk deriving from exposures to movements in market prices of trading assets and liabilities. The Group does not have any appetite to run market risk. 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, with the interest rate risk covered by IRRBB (under Treasury Risk). The Group has no exposure to foreign currencies.
<b>Operational Risk</b>	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 policies and procedures covering the various types of operational risk. A number of tools are in place to facilitate the oversight of operational risk, such as so-called Risk and Control Self Assessments (“RCSAs”).

<b>Conduct Risk</b>	We define Conduct Risk as the risk of detriment caused to DF Capital or its customers due to inappropriate execution of business activities and processes, such as the sale of unsuitable products or the mismanagement of customer complaints. Our policies outline the approach and processes we follow for ensuring good customer conduct outcomes and compliance with conduct requirements. It is supported by several process documents which detail the specific steps and responsibilities across the firm for treating our customers fairly.
<b>Reputational Risk</b>	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. In 2019, following the listing of DFCH, the scope of reputational risk coverage increased to cover our AIM reporting and disclosure requirements. This included creating new policies covering a number of requirements related to DF Capital's AIM listing, whilst ensuring we adhere to regulatory requirements applicable to banks as we work towards obtaining a banking licence.

<sup>1</sup> Internal Capital Adequacy Assessment Process (“ICAAP”).

<sup>2</sup> Internal Liquidity Adequacy Assessment Process (“ILAAP”).

<sup>3</sup> Recovery and Resolution Plan (“RRP”).



There are certain risks that run across 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. A good example is the risk created by climate change. We take climate change very seriously, but we believe it touches multiple parts of our business and several areas of risk and as such we do not see it as a unique principal risk. Our Risk Management Framework sets requirements for the inclusion, capture and assessment of climate change across principal risks. We believe this is the most effective way to capture cross-cutting risks.

# Enterprise-wide Risks

DF Capital identifies and monitors its most material enterprise-wide risks on an ongoing basis. At least quarterly, the Board and 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 required to mitigate the risks identified, providing a link between risk management, business strategy and financial planning, at a company-wide level.



The following tables summarise our view of, and management response to, the most material key and horizon risks facing DF Capital, as assessed by the Board and management.

## Key Risks

Risk title (Principal Risks)	Overview and Risk Management Strategy	Overall risk assessment
<b>UK recession</b> (Credit, Treasury)	<p>The risk of a UK recession was on the balance during 2019, primarily driven by Brexit uncertainties. Since then, the COVID-19 outbreak has brought about an immediate economic shock and the prospect of a deep recession in the UK and globally. This macroeconomic shock can impact our business in a number of ways, from higher credit losses and lower business volumes, through to compliance with the covenants of our wholesale funding facility.</p> <p>We have kept our focus on portfolio management over the past few months with a higher frequency of asset audits since late 2019. We postponed plans to add new lending products in 2020 where asset security would be more limited (e.g. ABL). In parallel to our response to the next risk on the list, we have also put in place enhanced planning, monitoring and controls around our financial resources to ensure ongoing and forward-looking compliance with risk appetite, wholesale funding facility covenants, and regulatory minima.</p>	 This risk was assessed as <b>Moderate</b> as at 2019 year-end. However, as a result of the COVID-19 outbreak and its impact on economic conditions, this risk is currently rated as <b>High</b> .
<b>Wholesale funding availability</b> (Treasury)	<p>DF Capital's loan book is primarily term-funded through a wholesale funding facility. As is the norm with this type of facilities, DF Capital is required to comply with a number of covenants relating to its own performance, as well as the performance and characteristics of the underlying loan portfolio. Following the departure of our Chief Executive Officer in late 2019, DF Capital entered into a temporary waiver agreement with its lenders. This resulted in a reduction of funding availability, which worsened in recent months as risk appetite for wholesale funding tightened in response to the COVID-19 outbreak and its impact on economic conditions.</p> <p>We have been carefully monitoring the loan portfolio on a daily basis and have prudently curtailed growth targets to ensure we remain liquid whilst still supporting our customers during this difficult period. We have been in discussions with our lenders and a temporary waiver to 30 September is in place.</p>	 This risk was assessed as <b>Moderate</b> as of 2019 year-end. However, whilst under a temporary waiver and given the lower risk appetite in wholesale funding markets due to the current economic conditions, this risk is currently rated as <b>High</b> .

### Key:

-  High  
(previously Moderate)
-  Moderate  
(previously High)
-  Moderate

<b>Banking licence timeline</b> (Treasury)	<p>Our expected timeline for obtaining a UK banking licence was prolonged compared to last year's initial expectations. This created additional risks to our capital and liquidity positions driven by the higher cost of funding of our current wholesale funding facility compared to the expected cost of funding via retail deposits. This meant we would experience slightly higher losses for slightly longer, gradually decreasing our capital base more than previously planned. In turn, this also decreased our capacity to grow the loan book as much as previously planned, limited by the size of our wholesale facility (in the absence of retail deposit funding) and the lower capital base.</p> <p>Appointing a new Chief Executive Officer was a top priority for the board and the process was successfully concluded in early 2020. Additional capital and liquidity plans were evaluated to fully understand the impact of the delay on the Group's financial position. As a result, enhanced measures were put in place to closely monitor and control the Company's balance sheet. The Group continues to explore other complementary sources of funding.</p>	 This risk was assessed as <b>High</b> as at 2019 year-end. However, as a result of the successful actions completed - most importantly the appointment of a Chief Executive Officer and the careful planning and management of our financial resources -- this risk is currently rated as <b>Moderate</b> .
<b>Operational failures</b> (Operational, Conduct, Reputational)	<p>As a young, growing firm we have always been conscious of our exposure to operational risks deriving from the fast pace of change in systems, processes and people; a significant, albeit declining reliance on 'manual' processes; and our evolving control environment. As with the macroeconomic risk above, 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, and the remote working of all of our staff.</p> <p>We have a plan of work ongoing to improve and automate operations and controls. This is supported by regular risk and compliance reviews, business assurance audits, and risk event reporting and back-testing. Improving our documentation of policies and procedures has also been a priority of the past few months. In response to the COVID-19 outbreak, a number of process changes have been designed and successfully implemented, and we remain ready to respond to an evolving working environment.</p>	 <b>Moderate</b>
<b>Assets sold out of trust</b> (Credit)	<p>When customers sell assets financed by the Group but fail to pay as per the agreed terms this creates a situation we term this as "sold out of trust". This is a key component of our exposure to credit risk and we dedicate significant attention to it. Depending on the circumstances of the asset sale, when an asset is sold out of trust, DF Capital can incur the risk that our exposure becomes unsecured. In extreme cases, the sale of an asset out of trust can take place as a means of fraud.</p> <p>Our focus on portfolio management and asset audits is a key component of risk management at the Company. We smartly and efficiently prioritised physical asset audits of various customer sites across the country using a risk sensitive model. We have also been working on an innovative, remote, and automated audit solution which was launched recently. In addition, we monitor a number of risk indicators which allow us to take pre-emptive action to mitigate this risk, or, if necessary, take steps towards asset recovery.</p>	 <b>Moderate</b>



Horizon Risks

Risk title (Principal Risks)	Overview and Risk Management Strategy	Overall risk assessment
Climate change (Credit, Operational, Reputational)	<p>The global trend towards electric vehicles is impacting the industry segments to which DF Capital is exposed to, some at higher speed than others. In addition, climate events may result in greater risks of damage to the physical assets funded by DF Capital (e.g. flood risk).</p> <p>We monitor industry and regulatory developments with respect to climate change. We also stay engaged with clients and manufacturers as products evolve. Whilst the risk to physical assets is covered by insurance on behalf of our customers, as required under our lending terms, our initial and ongoing customer risk reviews take into account factors associated with the asset location, including exposure to climate events.</p>	<div><div></div>Moderate</div>
Cyber (Operational, Reputational)	<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> <p>DF Capital aims to ensure 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 Management and the Board. DF Capital operates under an annual Cyber Security Plan, which includes tests performed internally and by third parties.</p>	<div><div></div>Moderate</div>

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.

The views expressed above reflected the position as of end-2019, updated to encompass more recent developments, namely with respect to the COVID-19 outbreak. Our view of these and other emerging risks is constantly evolving. For example, as we continue to work towards obtaining a banking licence, some of the risks above will evolve to reflect the planned launch and day-to-day management of a retail deposit business.





# Corporate Governance

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## Corporate Governance at DF Capital

Distribution Finance Capital operates as a specialised finance Company within the UK, however, since DF Capital is applying for a banking licence, it abides by and uses as best practice, where applicable, 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 ("Board").

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 regulated activities for which it is seeking permissions. Integral to this, the Board, through the executive management, ensures that DF Capital maintains a suitable and sustainable business model, overseeing that an appropriate balance is achieved between promoting suitable long-term growth and delivering short term objectives.

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

# Board of Directors and Executive Management

## Board of Directors

### Chairman



**John Baines**  
Independent Chairman

Committees:



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:  
Alliance Trust Savings Limited, 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:



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

Principal external appointments:  
Allica Bank Ltd.



**Carole Machell**  
Independent Non-Executive Director

Committees:



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 and Cab Tech Holdco Limited.



**Thomas Grathwohl**  
Independent Non-Executive Director

Committees:



Tom is a former GE Capital Senior Managing Director with 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 Greene<sup>1</sup>**  
Non-Executive Director

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

Principal external appointments:  
Coleura Labs Limited, Orsus Ventures Limited and TruFin Plc.

Key:

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



**Haakon Stenrød<sup>1</sup>**  
Non-Executive Director

Haakon is an Investment Director at Watrium AS. He was previously a partner with the leading Nordic investment banking group ABG Sundal Collier. 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.

### Executive Directors



**Carl D'Ammassa**  
Chief Executive Officer (CEO)

Carl has over 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 10 years 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 20 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, Controllershship, 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.

<sup>1</sup> Stephen Greene and Haakon Stenrød were appointed on 12 May 2020 and 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.

## Executive Management



**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.



**Desmond McNamara**  
Chief Risk Officer (CRO)

Desmond McNamara spent nine years at Barclays in a number of roles including CRO of Barclays Investment Bank. Prior to this, Desmond was Head of Financial Risk for the capital markets business of Dresdner Kleinwort Benson and Regional Treasurer for Deutsche Bank.



**Jonathan Biggin**  
Chief Operating Officer (COO)

Jonathan has more than 20 years of operational experience in banking and financial services, including being former COO of Hitachi Capital (UK). Jonathan defined and led the future strategy of the Customer Servicing, Operations, Technology and Data Management divisions whilst COO of MBNA, Bank of America.



**Sarah Clark**  
General Counsel and Company Secretary

Sarah is a barrister with 17 years experience, both in-house and in private practice across a range of sectors from software to film and publishing to insurance having begun her career with 5 years at Red Lion Chambers. Sarah is an expert in creating in-house legal provision both internally and externally to ensure maximum value and efficiency to shareholders. Sarah is General Counsel and Company Secretary at DF Capital, attending all Board meetings and sitting on the Executive Committee.



# Board and Board Sub-Committees

## The Board

The Board has the overarching responsibility for establishing an effective and proportionate Corporate Governance Framework (“CGF”) 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 BCBS Corporate Governance Principles for Banks, as adopted by the PRA and FCA;
- UK banking regulatory requirements although it does not currently have a banking licence;
- A strong customer focus, embracing the values of Treating Customers Fairly (“TCF”) and Conduct Risk;
- Provision of good value savings products, when available; and
- Aligned to the Board approved and agreed Risk Appetite Statement.

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 Committee. The organisation structure sets out clearly defined roles and responsibilities, lines of accountability and levels of authority to ensure effective and independent stewardship.

The Board is accountable for the structures and management of its operations to deliver against its strategic vision.

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. The Board delegates specific powers to other committees and the committee structure operates as shown in the chart above.

The Board is supported by a number of established Board sub-committees, namely the Board Audit Committee (“BAC”), Board Risk Committee (“BRC”), Nominations Committee (“NomCo”) and Remuneration Committee (“RemCo”).

The Board (and each of its sub-committees) has adopted Terms of Reference (“ToR”), setting out the committee’s roles and responsibilities. The ToR also sets 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.

Each committee maintains clearly defined Terms of Reference.

### Board balance and independence

The Board consists of four independent Non-Executive Directors, two Non-Executive Directors and two Executive Directors and is chaired by an independent non-executive director. The Board maintains a balance of independents and non-independent directors in the interests of balance and good governance.

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 Effectiveness

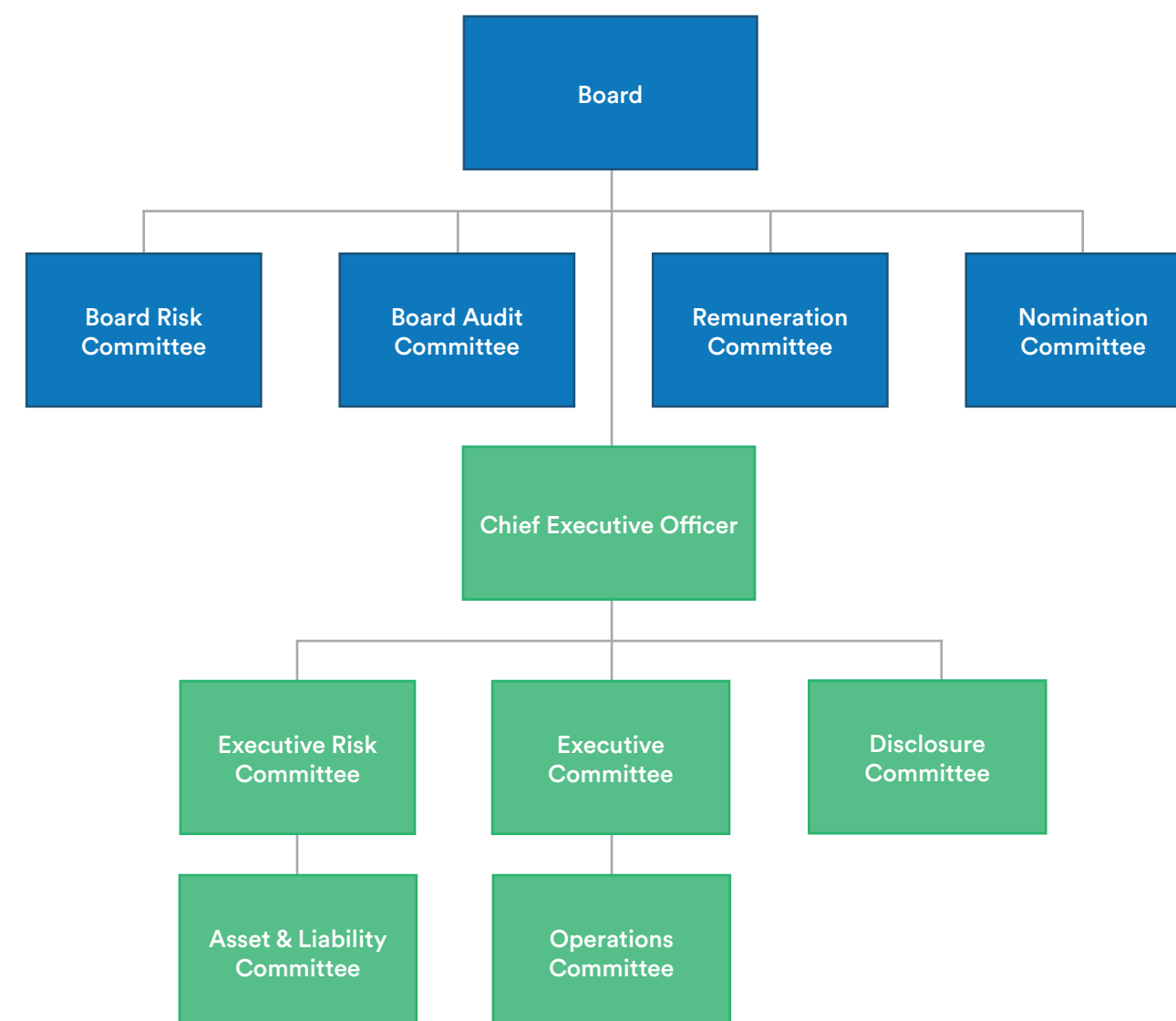
The effectiveness of the Board is the responsibility of the independent non-executive chairman. Board performance is reviewed annually.

The Group has not published an effectiveness review during the year ended 31 December 2019 in light of it becoming a listed business part way through the year. A review is scheduled during second half of 2020, led by the Senior Independent Director, following the Group’s annual general meeting.

### Reports of Board sub-committees

The Group has not published detailed reports from Board sub-committees for the year-ended 31 December 2019 in light of it becoming a listed business part way through the year. The Group does plan to provide enhanced disclosure and sub-committee reports following its first full year as a listed business, for the year-ended December 2020. The Group has however provided details of key discussion topics of each of the Board sub-committees later in this Corporate Governance section.

## 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 - 36
- Board Audit Committee - 36
- Remuneration Committee - 37
- Nomination Committee - 38

### Management committees

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

- Executive Committee - 40
- Executive Risk Committee - 40
- Disclosure Committee - 41
- Operations Committee - 41
- Asset and Liability Management Committee - 42

### Key:

- Board and Board sub-committees
- Management committees

Board Sub Committees

Board Risk Committee (“BRC”)

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”). BRC reviews and recommends for Board approval all risk management frameworks, as well as DF Capital’s ICAAP, ILAAP and RRP.

BRC monitors DF Capital’s full risk profile on an on-going basis.


The BRC reviews the effectiveness of DF Capital’s internal controls and considers management’s response to findings and recommendations made in risk reviews.

- Key responsibilities of the BRC include:**
- Overseeing internal controls and risk management systems and processes;
  - Reviewing and recommending for approval all relevant policies and regulatory documents;
  - Noting those policies that have been approved by Management Committees under the Policies Schedule;
  - Reviewing DF Capital’s aggregated risk profile in context of its risk appetite, covering all risk classes;
  - Challenging management on breaches of risk limits and the


- adequacy of remedial action;
- Advising the Board on overall risk appetite, tolerance, lending profile, stress testing and strategy taking account of the financial, economic and political environments in which DF Capital operates. It covers strategic, credit, market, operational, capital, structural, regulatory, HR and reputational risks;
- Final approval for any new products introduced by the business, outside of the approved Business Plan;
- Ensure effective control is maintained over DF Capital’s multiple risks, striking a pragmatic and commercially realistic balance between prudent risk management and the fulfilment of the Company’s strategic ambitions;
- Ensures alignment with RemCo in the assessment of executive remuneration and effective risk management;
- Reviewing the management of capital and liquidity of DF Capital; and
- Reviewing the effectiveness of the Chief Risk Officer, with whom the Chair of the BRC has a dotted line, signifying the CRO’s access to the Board.

- Key discussion topics at BRC during the year in review:**
- Review of Risk Appetite Framework
  - Impact of Brexit

- Banking licence application and risk based scenarios including ICAAP and ILAAP
  - New Product approval
  - Credit approval of large transactions and watch-list
  - Sector deep dives
- Future topics for review:**
- Review of liquidity and capital plans
  - On-going risk assessment of COVID-19 impact
  - Assessment of the firm’s security position audit regime
  - Sector deep dives
  - Review of risk management framework and effectiveness



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



The BRC meets on at least a quarterly basis.

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 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 of the Company.

The BAC 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.
- Key responsibilities of the BAC include:**
- Challenging both the external auditors and the management of the company;
  - Recommending the appointment of internal and external auditors;
  - Having the primary maintenance

- of the relationships with both the internal and external auditors;
- 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;
- Having oversight of the internal controls and the effectiveness of the Risk Management Framework;
- Ensuring appropriateness of accounting policies;


- Establishment and ongoing maintenance of a robust and comprehensive audit framework;
- Reviewing statutory accounts, financial statements and regulatory disclosures;
- Considering audit findings, both internal and external;
- Reviewing and addressing cases of actual or potential conflicts of interest;
- Oversight over DF Capital’s compliance with regulatory and reporting requirements; and
- Supporting the Whistleblowing policy.

The Company’s whistleblowing policy and procedure are overseen by the Board Audit Committee and the Committee’s Chair is the designated Whistleblowing Champion. The Annual Whistleblowing Report outlined that there was one incidence of whistleblowing during the year whereupon the policy and procedure operated successfully and efficiently with appropriate action being taken.


- Key discussion topics at BAC during the year in review:**
- Review of controls and 3 lines of defence model
  - Interim and full year statutory accounts
  - Review of material contracts / SYSC8
  - IFRS accounting policy
  - Internal Audit programme of reviews
  - Materials relating to the Group’s IPO
  - Audit of expenses policy

- Future topics for review:**
- Annual assessment of operational risk management framework and control environment
  - IFRS 9 provisioning refinement
  - Monitor outcomes and impact of the Kingman and Brydon reports
  - Assess the implementation and enhancement of the Group’s risk management capabilities in interest rate risk incl. technical accounting of derivatives (if a banking licence is granted)

- Review of whistleblowing policy
- On-going reviews of Internal Audit findings;
  - Governance, management and oversight processes for regulatory returns (if a banking licence is granted)
  - Cyber security risk assessment
  - Retail deposit review
  - Operational risk assessment
  - Credit risk review
  - Anti-money laundering
  - Conduct and culture



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



The BAC meets on at least a quarterly basis.

Remuneration Committee (“RemCo”)

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 RemCo are:**
- Ensuring that the remuneration arrangements are aligned to support the implementation of company strategy and effective risk management for the medium to long-term and take into account the views of shareholders;
  - Overseeing the establishment and maintenance of a remuneration policy that encourages and rewards the right behaviours, values and culture;
  - Ensuring that the structure and mix of fixed and variable pay meets regulatory guidelines;


- Satisfying itself as to the adequacy of performance measures that determine incentives;
- Ensuring that remuneration levels are benchmarked to industry peers on a periodic basis and remuneration structures and incentives are adjusted for risks; and
- Ensuring that the members of the committee commit sufficient time to the role and develop the necessary skills and knowledge (including, for example, current market practice, taxation and legal requirements).

- Key discussion topics at RemCo during the year in review:**
- Market assessment of Group-wide employee benefits
  - Review of executive and senior management salary and bonuses


- Criteria for annual incentive and sales incentive plans across the Group
- Actions following the investigation into the conduct of the CEO
- Compensation, benefits and share allocation of a new permanent CEO

- Future topics for review:**
- Review of the Group’s Remuneration policy
  - Assessment of executive pay and long term incentives / performance share plans including effective risk management assessment
  - Market assessment of Group-wide employee benefits

Directors’ emoluments are detailed on page 79 of the financial statements.



The RemCo is chaired by an INED.



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

## Nomination Committee (“NomCo”)

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 NomCo are:

- Review the structure, size and composition (including the skills, knowledge and experience) of all Board committees and make recommendations to the Board with regard to any changes, in consultation with the Chairs of those committees;
- Review the structure, size and composition of the senior management team and make 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;
- Keep a close eye on succession plans and possible internal candidates for future Board roles;
- Works closely with the Board and the chair to identify the skills,

experience, personal qualities and capabilities required for the next stage in the company’s development, linking the company’s strategy to future changes on the Board;

- Review and assess the adequacy of DF Capital’s corporate governance policies, practices and overall organisation;
- Review and assess the Board’s and Board committees practices to ensure the Board’s effectiveness and recommend any changes for the Board’s approval; and
- Annually review the performance of the NEDs and provide support to the chair (and Senior Independent Director) to remove any underperforming executive director or NED.

### Key discussion topics at NomCo during the year in review:

- Executive appointments
- Investigation into the conduct of the CEO
- Appointment of interim CEO
- Appointment of permanent CEO

### Future topics for review:

- Leading the Board effectiveness review
- Review of Corporate Governance policies and practices
- Review of senior manager function role holders (if a banking licence is granted)



The NomCo is chaired by an INED.



The NomCo meets twice a year.

## Attendance at meetings

The attendance of the directors at Board and the principal committee meetings that took place during the year are shown below.<sup>2</sup>

	Board	Risk	Audit	Nomination	Remuneration
<b>Number of meetings held</b>	17	10	10	4	4
<b>Independent Non-Executive Directors</b>					
John Baines (Chairman)	17	10	10	4	4
Carole Machell	17	10	9	4	4
Mark Stephens	16	10	10	4	4
Thomas Grathwohl <sup>3</sup>	17	10	10	4	4
<b>Non-Executive Directors</b>					
David Bateman <sup>4</sup>	4 (4)	4 (4)	4 (4)	0 (0)	0 (0)
Henry Kenner <sup>5,7</sup>	16	7	10	2	2
James Van den Bergh <sup>6,7</sup>	10 (11)	6 (9)	6 (8)	2	2
<b>Executive Directors</b>					
Chris Dailey (CEO) <sup>8</sup>	14 (15)	9 (9)	9 (10)	1 (1)	0 (0)
Gavin Morris	17	10	10	2	1

<sup>2</sup> Board Meetings shown relate to Distribution Finance Capital Ltd until April 2019 and to Distribution Finance Capital Holdings plc thereafter, following the IPO.

<sup>3</sup> Appointed to Board and sub-committees ~February 2019. Prior to February 2019 attended as invitee.

<sup>4</sup> David Bateman resigned as a Director on 9 April 2019.

<sup>5</sup> Henry Kenner was interim CEO between 3 November 2019 and 1 April 2020.

<sup>6</sup> Appointed on 16 April 2019.

<sup>7</sup> Henry Kenner and James Van den Bergh resigned from the Board on 12 May 2020.

<sup>8</sup> Ceased to be director on 3 November 2019.

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



Management Committees

Executive Committee (ExCo)

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

Key responsibilities of ExCo include:

- Reviewing and recommending for approval by the Board strategic objectives, business and financial plans, performance targets, other initiatives and key policies of the DF Capital;
- Managing DF Capital’s business according to set policies and plans;
- Directing activities to attain business and performance targets;
- Reviewing performance in light of DF Capital’s strategy, objectives, business plans and risk appetite;
- Monitoring and reporting DF Capital’s operating results;

- Apportionment and adequate resourcing to manage the business of DF Capital;
- To support the risk management responsibilities delegated from the Board to the CEO;
- To support and recommend to BRC any new products outside of the approved business plan; and
- To support the CEO in the control and maintenance of DF Capital’s reputation, as its prime point of executive responsibility.

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.


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 RMF to ensure that they are in line with regulatory expectations and industry good practices;
- 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).

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 Regulation (EU) No 596/2014 (“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 Committee agendas include 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.

Asset and Liability Committee (ALCo)


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. 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).

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. 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:

- Review 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;
- Review 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;

- Review processes and procedures, ensuring these remain compliant with policy and regulation, and making changes where appropriate;
- Review systems and controls and in particular Operational Risk controls ensuring these are appropriate and to escalate significant issues;
- Monitor Information Security (“IS”)/ Information Technology (“IT”) incidents and manage system performance through feedback to Head of IT;
- Review and oversee the delivery of projects within the Operating Plan;
- Continually monitor incidents of fraud and cyber theft, identifying where controls can be implemented to prevent further occurrences;
- Review DF Capital’s BCP and Disaster Recovery (“DR”) arrangements, ensuring yearly testing of disaster recovery arrangements;

- Review and manage resourcing within agreed headcount and budget; and
- Review any complaints and their handling.

The OpCo is chaired by the COO.

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

Beyond the Committees - The Business Functions

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

Customer Facing Functions

DF Capital has a customer-facing CCO and Managing Director Retail focused on commercial borrowers and retail deposit customers (post authorisation), respectively.

These functions are responsible for ensuring that the originated business is in line with all relevant policies and procedures (business, risk and compliance), they are adhered to and that any breaches are escalated and reported, through the second line.

Operations and Information Technology

The Operations function is responsible for the day to day management of operations and for ensuring the establishment of all necessary systems, processes and controls. This includes the set up and running of all aspects of IT. The function is also responsible for processing, reconciling, reviewing and reporting any errors in transactions and recording any operational risk related issues. Key issues such as Data Protection/ GDPR, Cyber Security measures and Business Continuity and Data Backup measures are controlled here.

Finance

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

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

All external reporting, including financial and regulatory reporting, is undertaken within the finance function.

Treasury

The Treasury function is responsible for managing the assets and liabilities of DF Capital and undertaking investment activities. 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 on-going management of market and liquidity risks arising from DF Capital operations and escalating breaches in accordance with established policies and procedures.

In addition, Treasury monitors adherence to the Liquidity standards and to the approved appetite and metrics as agreed under the ILAAP.

Risk

The risk function (including the CRO, risk managers and compliance team) is responsible for adherence to the RMF, Risk Appetite Framework (“RAF”) and all applicable policies and procedures. It provides independent challenge to the first line in respect of risk management and provides advice to the business when it is approaching the limits of risk appetite. In addition, the risk function assesses and regularly reports on risks, primarily through RAF reporting.

Legal, Compliance, Anti-Money Laundering and Financial Crime

The compliance team is responsible for ensuring compliance oversight to all applicable regulatory and conduct requirements. It manages and delivers against the Compliance Monitoring Plan and ensures that the first line performs and adheres to policy and regulation. It also ensures that regulatory changes are reflected in new business and product lines. The risk and compliance function makes up the majority of the Second Line of Defence in the Company, providing suitable oversight and challenge.

The Compliance team is responsible for ensuring compliance oversight to all customer AML/KYC at onboarding and through periodic reviews; oversees due diligence checks on new and existing clients and monitoring of transactions in line with the current laws and guidelines as adopted in UK and EU law. The team has a dedicated Money Laundering Reporting Officer (“MLRO”).



### Internal Audit (Independent Assurance)

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

It ensures appropriate emphasis on regulatory compliance and risk management, and that all aspects of the DF Capital's operations are independently reviewed at agreed intervals. It assesses the adequacy and effectiveness of all policies and procedures. Due to the fact that this is an outsourced function, the prescribed responsibilities under SMR is held by the CEO and by the Chair of the BAC, jointly, to ensure responsibility is retained in DF Capital.





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 authority delegated 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 communities and our shareholders. Additionally, due consideration is also given to our expected future stakeholders being the Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”), jointly considered our future regulators, if the Group is granted a banking licence.

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

section 172. Due consideration to all stakeholders is a focal point of all Board and Executive committee meetings. As a newly listed entity, the Directors continue to evolve and improve oversight of the firm’s activities. Below are some examples of stakeholder engagement.

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. As an example, “DF Connect” was launched as a market leading portal for dealers and manufacturers to transact business with us. 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. Non-Executives have also visited customers through the year in review.

Further information on our customer engagement can be found in this strategic review.

Employees

The Board recognises that much of the firm’s success is due to the quality of our people, their level of engagement and conduct disciplines they employ. The Board has encouraged feedback through a cultural survey, conducted in Q4 2019 to guide the firms people strategy and ensure employee benefits attract, retain and grow the firm’s talented pool of employees. Monthly updates are provided to the Board on employee related matters to guide wider decision making. As a small firm, Directors are accessible and visible to employees which allows feedback to flow freely. Our NED whistleblowing champion, Carole Machell, engaged throughout the investigations in Q4 ’19 supporting colleagues directly. The

Board regularly receives presentations from members of the wider team, not just executive management.

Further information on employee engagement is set out in our People Strategy on pages 18-19.

Shareholders

Fulfilling the firm’s strategy depends significantly on the support of its shareholders. Management presentations to prospective shareholders were a key component of the listing strategy. Since IPO, the firm has continued to have open dialogue through non-executive directors with shareholders. Shareholder feedback has been provided at Board meetings as appropriate. This was particularly important following the previous CEO leaving the firm in November 2019 and the appointment of Carl D’Ammassa in March 2020. Given the new CEO appointment and changes of the Board’s composition, the firm has refreshed its approach to shareholder engagement. Executive management and a newly appointed Head of Investor relations will engage with shareholders and provide feedback to the Board each month. Additionally, the Board has determined that a shareholder meeting to be held in August is appropriate in order to update shareholders on the firm’s future plans, particularly in light of COVID-19 and the delayed banking licence application.

Regulators (future stakeholder)

Although DF Capital is not a regulated bank it has been operating like a bank in anticipation of receiving a licence. As part of the application process and on-going interaction it has a duty to engage transparently and proactively with the regulators. The Board has had regular interaction with the regulators throughout the application process, alongside members of the executive team. 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. Additionally, Board members have attended regulatory briefings throughout the year.

Decision making

Set out below is a recent and significant example of how the Directors have regards to the matters set out in section 172(1)(a)-(f) when discharging their duties under section 172.

Decision	Stakeholder	Considerations
Growth and Profitability Strategy	The Group	Executing the firm’s growth strategy was believed to be maximised by obtaining a banking licence. Additionally, having considered the view of other stakeholders, obtaining a banking licence would be best achieved by listing the business (“IPO”).
	Customers	An assessment was completed as to demand for SME lending products and gaps in the market that the firm could fill. The growth strategy, and becoming a bank, provides capital and liquidity to enable significantly increased lending to customers and the opportunity to deliver an enhanced digitally-led customer experience in existing and new product markets.
	Employees	Growth of the firm would provide richer opportunities for employees to develop their career ambitions in a regulated environment.
	Regulator	In progressing the growth strategy and banking licence application, the firm has had frequent and on-going communication with the regulators, to ensure the firm’s plans are aligned with all relevant prudential and conduct regulatory requirements
	Shareholders	During the IPO process, potential shareholders received management presentations to inform them of the firm’s strategic intentions and growth plans, which in turn supported their investment decisions.



# Report of the Directors

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2019.

Details of significant events since the balance sheet date are contained in note 34 to these consolidated financial statements. An indication of likely future developments in the business of the Group are included in the Strategic Report.

Information about the use of financial instruments by the Group is detailed within note 30 to the consolidated financial statements.

## Principal activity

The principal activity of the Group is the provision of niche commercial lending activities including short-term lending financing to dealers.

## Results and dividends

The total comprehensive loss for the year, after taxation, amounted to £13,500,000 (2018: loss £7,264,000). The Directors do not recommend the payment of a dividend (2018: £nil).

## Directors

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

John Baines (appointed 11 April 2019)  
 Carl D'Amassa (appointed 9 March 2020)  
 Gavin Morris (appointed 28 March 2019)  
 Mark Stephens (appointed 11 April 2019)  
 Carole Machell (appointed 11 April 2019)  
 Thomas Grathwohl (appointed 11 April 2019)  
 Stephen Greene (appointed 12 May 2020)  
 Haakon Stenrød (appointed 12 May 2020)  
 (Simon) Henry Kenner (appointed 11 April 2019, resigned 12 May 2020)  
 James van den Bergh (appointed 11 April 2019, resigned 12 May 2020)  
 Christopher Dailey (appointed 28 March 2019, resigned 3 November 2019)

## Directors shareholdings

As at 31 December 2019, the Directors held the following ordinary shares in the Company:

	No. of ordinary shares	Voting rights (%)
John Baines	222,222	0.21%
Gavin Morris	229,387	0.22%
(Simon) Henry Kenner	1,484,947	1.39%
James Van den Bergh	1,947,292	1.83%
Carole Machell	83,333	0.08%

James Van den Bergh also holds 50,000 redeemable non-voting preference shares of £1.00 each.

## Significant shareholders

As at 31 December 2019, 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	14,833,922	13.91%
Liontrust Asset Management	7,574,276	7.10%
Premier Milton Investors	3,888,889	3.65%
Christopher Dailey	3,276,256	3.07%

## Cautionary statement

The Directors have provided discretionary statements within the Annual Report which have been provided in good faith and based on information available at the time of signing these consolidated financial statements. The Directors have prepared the Annual Report in accordance with section 417 of the Companies Act 2006.

## Annual General Meeting

The Company's Annual General Meeting will be held at 187 Worlds End Lane, Orpington, Kent BR6 6AT on 30 June 2020 at 2pm.

The Company anticipates that legislation will be passed in the coming weeks, enabling companies to delay Annual General Meetings by up to three months in light of the COVID-19 pandemic. Should such legislation be passed before 30 June 2020, the Company will take advantage of such legislation to delay the Annual General Meeting to a date in August when it would be hoped that a regular Annual General Meeting could be held, with shareholders in attendance. Should the decision to delay the Annual General Meeting be taken, the Company will write to shareholders informing them of the new date for the Annual General Meeting and for submitting forms of proxy.

## 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 assessed the likelihood the Group will be able to meet its debts as they fall due for the foreseeable future, being a period at least twelve months after the date of these accounts (the "Going Concern period"), including the impact that the COVID-19 pandemic has had on the UK economy and, therefore, the Group.

As covered extensively in the strategic review, COVID-19 has impacted the Group's borrowers through the extended period of lockdown. Dealers have been substantively closed, their retail sales have slowed, and stock has turned at a slower pace than we would normally expect, which has impacted repayment of the Group's loans.

Additionally, as a reaction to the public health crisis, the Group's lenders have tightened their own credit appetite, which has seen the Group's ability to transact new lending significantly curtailed and cash flow from the lending facility to the Group has also been constrained.

In light of these points, the Group has performed analysis to assess the Group's resilience during an extended period of stress, assessing both capital and liquidity resilience in challenging circumstances, while also considering appropriate and reasonable management actions. This approach to analysis is in line with common practices for banks in assessing the impact of stress on the firm's business plan. In performing this stress analysis, the Directors have also assessed the going concern of the Company, by considering the wide range of information, the current funding strategy, dealers facing a 6 month impact of lockdown and slower loan repayments during that period, potential insolvencies and significantly elevated losses running at 4x the 2019 loss rate, whilst also taking in to account the strong security position of the lending product (c.68% of retail sales value). The Directors believe, on the basis of this information and management's analysis, that the assumptions used are plausible and present a significant downside scenario. In this scenario the analysis suggests, with effective management actions, that the Group would withstand a severe impact of COVID-19.

Whilst loan book performance has been strong at the time of writing, operating inside of the firm's downside scenario, the current economic outlook remains uncertain. In light of this uncertainty and firm specifics, the Directors have reassessed the

Group's cashflow forecasts for 12 months from 25 June 2020 and have determined that the Group may not be able to meet its liabilities as they fall due beyond December 2020 in the absence of any successful management actions.

Specific factors that could impact the firm, but are considered to have appropriate management actions already in progress and have been covered in the strategic review, are:

- Dealer sales not increasing following the recent relaxation of lockdown restrictions and accordingly the firm's loans are repaid more slowly than current experience to date;
- Dealers fail in significant numbers, in turn impacting the firm's security position and the Group realises highly elevated write-offs, well above the levels experienced to date;
- The Group fails to negotiate the release of cash from its existing lending facility through any extended periods of waiver; or fails to obtain alternative wholesale financing (such as the British Business Bank Enable Funding application);
- The firm's fails to negotiate the reschedule of the unsecured loan repayment due to TruFin Holdings Ltd in December 2020; and
- The firm is not granted a banking licence by the regulators, who have until August 2020 to consider the firm's application.

The Group has already taken action to tighten the Group's cost base, withdrawing bonuses and incentive payments and mitigating potential credit losses by implementing enhanced remote auditing techniques and new technology solutions, supplementing its conventional approach to risk management. Further action could be taken to manage dealers to their contractual repayment dates and encourage an accelerated reduction in the loan book.

In light of the progress made to date in relation to the identified management actions, the Directors are confident that the Group is making sufficient progress in mitigating the firm specific factors and its cash position, which would allow positive cash reserves to be maintained over the next 12 months. Many of the management actions are in advanced stages, however none have yet been contractually negotiated. As these actions are not solely within management's control and, furthermore given the level of economic uncertainty, there is a possibility that external factors could adversely impact the Group's going concern assessment, the Directors' have determined that the conditions above represent a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Nevertheless, after considering these uncertainties, the Directors believe that the actions management are pursuing are reasonable, viable and highly executable, which would allow the Group to continue for the foreseeable future. Therefore, the Directors have adopted the going concern basis of accounting in preparing the financial statements.

## Corporate Governance

The Corporate Governance Report on pages 31 to 56 contains information about the Group's corporate governance arrangements.

## Post balance sheet events

There have been no significant events between 31 December 2019 and the date of approval of the financial statements which would require change to the financial statements. Note 34 provides information in respect of post balance sheet events and the Strategic Report provides information in respect of the COVID 19 outbreak, which will impact the Group's results for 2020.

## Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

## Reappointment of auditor

Deloitte LLP have expressed their willingness to continue in office as auditor.

Resolutions to approve the appointment of Deloitte as auditor will be proposed at a General Meeting to be convened in August 2020. If the Company should delay the Annual General Meeting to be convened in August 2020 arising from legislation enabling companies to delay Annual General Meetings by up to three months in light of the COVID-19 pandemic, then resolutions to approve the appointment of Deloitte as auditor will be proposed at this Annual General Meeting in August 2020.

Approved by the Board on 25 June 2020 and signed on its behalf by:

**Carl D'Amassa**  
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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 (together 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 2019 and of the group’s loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### 2. Basis for opinion

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

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

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

### 3. Material uncertainty relating to going concern

We draw attention to note 1.4 in the financial statements, which indicates that the COVID-19 pandemic has had a significant impact on the group’s borrowers with the majority of them having to temporarily close as a result of the lockdown measures imposed by the UK Government. As a result of the closures, loan redemptions have substantially reduced. Furthermore, the group has received a waiver to 30 September 2020 in relation to covenant breaches with respect to their wholesale funding facilities. However, the waiver has a break clause and on 15 August 2020 the lenders could put the facilities into early amortisation. The group is also due to make a final loan repayment to their previous parent, TruFin plc, of £9.5m in December 2020. In their going concern assessment, management has prepared forecasts for a number of scenarios including a “worst case” scenario where the waiver is not renewed and alternative funding is not secured. Although management’s forecast demonstrates that they will have sufficient cash inflows to meet liabilities as they fall due for at least twelve months from the end of June 2020, it is highly sensitive to assumptions in relation to the timing and amount of repayments from borrowers.

In response to this, we:

- Gained an understanding of relevant controls over the preparation of management’s forecasts;
- Inspected the current waivers from the group’s wholesale funders and confirmed that they expire on 30 September 2020 with a break clause that is exercisable on 15 August 2020;
- Inspected the terms of the group’s wholesale funding agreements to confirm that, if the current waivers are not extended, the facilities are put into “early amortisation” whereby all cash inflows from borrowers will be used to repay the wholesale funders until they have been repaid in full rather than becoming payable on demand;
- Reviewed management’s forecasts, focussing on the “worst case” scenario where the current waivers are not extended and the group is unable to obtain alternative funding. In particular, we performed the following procedures:
  - Tested the arithmetic accuracy of the forecasts;
  - Tested the assumptions in the forecasts with respect to recent experience where relevant;
  - Inspected the terms of the loan from TruFin plc, including the dates of future repayments; and
  - Challenged management’s assumptions around expected repayments from borrowers both with respect to the timing and amount of cash inflows, including performing sensitivity analysis.

As stated in note 1.4, these events or conditions, along with the other matters as set forth in note 1.4 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group’s and the company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### 4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>Loan loss provisioning</li><li>Going concern (see material uncertainty relating to going concern section)</li></ul>
Materiality	The materiality that we used for the group financial statements was £2.1m 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"><li>Distribution Finance Capital Limited; and</li><li>DFC Funding No. 1 Limited.</li></ul>

### 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. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

#### 5.1 Loan loss provisioning

Key audit matter description	As stated in note 20, the group has a total loans and advances to customers balance of £209m (2018: £114m) and associated expected credit losses (“ECL”) of £1,409k (2018: £169k), representing 0.67% of the total loans and advances to customers balance (2018: 0.15%).  As detailed in the summary of critical accounting judgements and estimates in note 3, the estimation of expected credit losses is inherently uncertain and requires significant management judgement. The key judgement in the assessment of expected credit losses under IFRS 9 is the estimation of the loss given default (“LGD”) for loans originated by the group, being the estimation of sales proceeds for collateral held against these loans. As detailed in note 30, collateral is held against all of the loans and, at 31 December 2019, 99.6% of the loan portfolio was fully collateralised (2018: 100.0%). 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
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	event that the group takes possession of and sell the collateral, or that the collateral cannot be realised in the event of default (e.g. if the collateral has been “sold out of trust” by the dealer). We have, therefore, determined that the potential risk of error in or manipulation of LGD is a key audit matter.
How the scope of our audit responded to the key audit matter	<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 reviewed management’s ECL methodology to assess whether it is compliant with IFRS 9, tested the arithmetic accuracy of the ECL model and performed detailed testing to assess whether the loan and collateral data used in the model was accurate.</p> <p>For a sample of loans, we independently verified the existence and valuation of assets held as collateral. Furthermore, with reference to actual losses, we challenged management’s assumptions in relation to assets sold out of trust and the discount applied to valuations to reflect a forced sale.</p>
Key observations	Based on the work performed, we are satisfied that management’s approach is compliant with IFRS 9 and, whilst we observed both conservative and optimistic elements, we concluded that the loan loss provision is not materially misstated.

6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£2.1m	£2.0m
Basis for determining materiality	1% of loans and advances to customers.	Parent company materiality equates to less than 3% of shareholders’ equity of the parent and is capped at 99% of group materiality.
Rationale for the benchmark applied	The group is loss making and, currently, the focus is on growing 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 performance materiality was set at 70% of group materiality for the 2019 year end audit. In determining performance materiality, we considered the following factors:

- Our risk assessment, including consideration of the group’s control environment and the maturity of the business;
- Our past experience of the Distribution Finance Capital Limited audit; and
- Consideration of the circumstances in relation to the departure of the previous CEO in the 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 £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.

8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 Statement of Directors’ Responsibilities, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.



## Report on other legal and regulatory requirements

### 11. 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.

### 12. Matters on which we are required to report by exception

#### 12.1. 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.

#### 12.2. 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.

### 13. 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, UK  
25 June 2020





# Financial Statements

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## Consolidated Statement of Comprehensive Income

	Note	2019 £'000	2018 £'000
Interest and similar income	4	12,230	4,828
Interest and similar expenses	6	(8,207)	(3,503)
<b>Net interest income</b>		<b>4,023</b>	<b>1,325</b>
Fee income	7	358	351
<b>Net fee income</b>		<b>358</b>	<b>351</b>
Gains on debt securities	21	67	-
<b>Total operating income</b>		<b>4,448</b>	<b>1,676</b>
Staff costs	8	(9,854)	(5,851)
Other operating expenses	9	(3,716)	(2,695)
Finance costs	10	(29)	-
Depreciation and amortisation	16,17,18	(459)	(108)
Loss on disposal of fixed assets	16	(22)	-
Provisions	12	(165)	(171)
Exceptional items	11	(2,125)	-
<b>Total operating loss before impairment losses</b>		<b>(11,922)</b>	<b>(7,149)</b>
Net impairment loss on financial assets	13	(1,582)	(116)
<b>Loss before taxation</b>		<b>(13,504)</b>	<b>(7,265)</b>
Taxation	15	-	-
<b>Loss after taxation</b>		<b>(13,504)</b>	<b>(7,265)</b>

### Other comprehensive income:

Items that may subsequently be transferred to profit or loss:

Fair value movements on debt securities	21	4	1
<b>Total other comprehensive income for the year, net of tax</b>		<b>4</b>	<b>1</b>
<b>Total comprehensive loss for the year attributable to equity holders</b>		<b>(13,500)</b>	<b>(7,264)</b>

### Earnings per share:

		pence	pence
Basic and diluted EPS	31	(18)	(54)

The notes on pages 63 to 113 are an integral part of these financial statements.

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

As detailed in note 2.15 of these consolidated financial statements, the Group has adopted Merger Accounting given the transactions executed to form the Group represent a combination of businesses under common control. As a result, these consolidated financial statements have been prepared as if the Group had been formed and already existed in the current and prior periods presented.

## Consolidated Statement of Financial Position

	Note	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>Assets</b>			
Cash and cash equivalents	23	14,122	7,556
Loans and advances to customers	20	207,636	113,795
Debt securities	21	7,994	4,994
Trade and other receivables	22	3,506	2,861
Property, plant and equipment	16	242	230
Right-of-use assets	17	638	-
Intangible assets	18	862	620
Assets classified as held for sale	19	-	266
<b>Total Assets</b>		<b>235,000</b>	<b>130,323</b>
<b>Liabilities</b>			
Trade and other payables	29	5,248	2,479
Financial liabilities	28	164,663	72,445
Provisions	12	533	846
<b>Total Liabilities</b>		<b>170,444</b>	<b>75,771</b>
<b>Equity</b>			
Issued share capital	25	1,066	17
Share premium	25	-	35,994
Merger relief	25	94,911	-
Merger reserve	26	(20,609)	-
Retained (loss) / earnings		(10,812)	18,541
<b>Total Equity</b>		<b>64,556</b>	<b>54,552</b>
<b>Total Equity and Liabilities</b>		<b>235,000</b>	<b>130,323</b>

The notes on pages 63 to 113 are an integral part of these consolidated financial statements.

As detailed in note 2.15 of these consolidated financial statements, the Group has adopted Merger Accounting given the transactions executed to form the Group represent a combination of businesses under common control. As a result, these consolidated financial statements have been prepared as if the Group had been formed and already existed in the current and prior periods presented.

These financial statements were approved by the Board of Directors and authorised for issue on 25 June 2020. They were signed on its behalf by:

**Carl D'Amassa**  
Director  
25 June 2020

Registered number: 11911574

## Consolidated Statement of Changes in Equity

	Issued share capital £'000	Share premium £'000	Merger relief £'000	Merger reserve £'000	Retained (loss) / earnings £'000	Total £'000
<b>Balance at 1 January 2018</b>	<b>5</b>	<b>3,296</b>	<b>-</b>	<b>-</b>	<b>(4,765)</b>	<b>(1,464)</b>
Loss after taxation	-	-	-	-	(7,266)	(7,266)
Other comprehensive income	-	-	-	-	1	1
Debt to equity conversion	6	(3,296)	-	-	30,571	27,281
New issues of shares - DFC Ltd	6	35,994	-	-	-	36,000
<b>Balance at 31 December 2018</b>	<b>17</b>	<b>35,994</b>	<b>-</b>	<b>-</b>	<b>18,541</b>	<b>54,552</b>
Effect of change in accounting policy for IFRS 16	-	-	-	-	-	-
<b>Balance at 1 January 2019</b>	<b>17</b>	<b>35,994</b>	<b>-</b>	<b>-</b>	<b>18,541</b>	<b>54,552</b>
Loss after taxation	-	-	-	(3,220)	(10,284)	(13,504)
Other comprehensive income	-	-	-	-	4	4
Preference shares conversion to debt	-	-	-	-	(964)	(964)
New issues of shares - DFC Ltd	7	24,993	-	-	-	25,000
Arising on consolidation	(24)	(60,987)	-	(17,389)	(17,577)	(95,977)
New issues of shares - DFCH plc	1,066	-	94,911	-	(532)	95,445
<b>Balance at 31 December 2019</b>	<b>1,066</b>	<b>-</b>	<b>94,911</b>	<b>(20,609)</b>	<b>(10,812)</b>	<b>64,556</b>

The notes on pages 63 to 113 are an integral part of these consolidated financial statements.

As detailed in note 2.15 of these consolidated financial statements, the Group has adopted Merger Accounting given the transactions executed to form the Group represent a combination of businesses under common control. As a result, these consolidated financial statements have been prepared as if the Group had been formed and already existed in the current and prior periods presented.

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



## Consolidated Cash Flow Statement

	Note	2019 £'000	2018 £'000
<b>Cash flows from operating activities:</b>			
Loss before taxation		(13,504)	(7,265)
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	16	118	59
Depreciation of right-of-use assets	17	185	-
Loss on disposal of fixed assets	16	22	-
Amortisation of intangible assets	18	155	49
Finance costs	10,28	29	-
Interest income on debt securities	21	(67)	-
Impairment allowances on receivables	13	1,582	105
Movement in other provisions	12	(313)	182
Taxation paid	15	-	-
Operating cash flows before movements in working capital		(11,793)	(6,870)
Increase in loans and advances to customers		(95,178)	(83,201)
Decrease/(increase) in trade and other receivables		163	(1,292)
Increase in trade and other payables		9,574	1,886
Increase in financial liabilities	28	99,272	79,926
Repayment of financial liabilities	28	(8,430)	(10,000)
Interest paid	28	(8,382)	(2,215)
Cash used in operations		(2,981)	(14,896)
<b>Net cash used in operating activities</b>		<b>(14,774)</b>	<b>(21,766)</b>
<b>Cash flows from investing activities:</b>			
Purchase of debt securities	21	(92,045)	(5,993)
Proceeds from sale and maturity of debt securities	21	89,116	1,000
Purchase of property, plant and equipment	16	(152)	(253)
Purchase of intangible assets	18	(397)	(669)
<b>Net cash used in investing activities</b>		<b>(3,478)</b>	<b>(5,915)</b>
<b>Cash flows from financing activities:</b>			
Issue of new shares	25	25,000	26,004
Repayment of lease liabilities	28	(182)	-
<b>Net cash from financing activities</b>		<b>24,818</b>	<b>26,004</b>
<b>Net increase in cash and cash equivalents</b>		<b>6,566</b>	<b>(1,676)</b>
Cash and cash equivalents at start of the year		7,556	6,458
<b>Cash and cash equivalents at end of the period</b>	<b>23</b>	<b>14,122</b>	<b>7,556</b>

## 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, Distribution Finance Capital Ltd (“DFC Ltd”), together form the “Group”.

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 were listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange on 9 May 2019. The Company subscribed 106,641,926 ordinary shares in the initial public offering, at a consideration of 90p per share, giving a total market capitalisation of £96 million.

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

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

#### 1.2 Basis of accounting

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 European Union endorsed 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 Distribution Finance Capital Ltd, 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.

During the year ended 31 December 2019, the Group adopted the following new standards and amendments to existing standards which were effective for accounting periods starting on or after 1 January 2019:

#### IFRS 16: Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 supersedes IAS 17 with the main distinction being the removal of the need for lessees to identify between operating leases and finance leases. The Group has adopted IFRS 16 by applying the modified retrospective approach. Under this approach the Group has measured the lease liability at the initial date of application at the present value of the remaining lease payments, discounted at the incremental borrowing rate with no restatement of comparative presented financial information. This chosen approach, allows the right-of-use asset to be recognised at the time of initial application at an amount corresponding to the respective lease liabilities, adjusted by the amount of prepaid or deferred lease payments.

## 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. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The Group has applied consistently across all leases applicable under IFRS 16 an incremental borrowing rate of 5%. The incremental borrowing rate represents the weighted average incremental borrowing rate which would be incurred should the Group wish to borrow funds to purchase a similar asset to that being leased by the Group. Prior to transitioning to IFRS 16, the Group had operating lease commitments of £767,000 whereas under IFRS 16 the Group recognised initial lease liabilities of £691,000. The Group has equated the opening right of use asset to the corresponding lease liability at initial recognition but has also added expected restoration costs and residual prepaid amounts as at 1 January 2019 to the right-of-use asset opening balance.

In applying IFRS 16 for the first time, the Group has used a number of practical expedients permitted by the standard; the most significant of which include the following:

- Lessee opts for the modified retrospective approach which does not require the Group to restate retained earnings, rather it may adjust retained earnings as at 1 January 2019;
- In the event there is no interest rate implicit within the lease contract, the Group has applied an incremental borrowing rate which would be incurred should the Group require funds to purchase the asset; and
- Exclusion of initial direct costs from the measurement of the right-of-use asset.

For the year ended 31 December 2019, the introduction of IFRS 16 has impacted the consolidated statement of comprehensive income with additional expense of £11,000, of which the Group recognised £185,000 of depreciation for right-of-use assets and £29,000 in respect of interest expense on lease liabilities compared to £203,000 under the old IAS 17 methodology. The introduction of IFRS 16 has had an immaterial impact on the earnings per share of the Group. Given the Group has elected to apply the modified retrospective approach, there is no restatement retained earnings but instead retained earnings are adjusted as at 1 January 2019 – the Group adjusted retained earnings at 1 January 2019 by £nil.

See note 2 for further details of the IFRS 16 accounting treatment.

### 1.3 Principal accounting policies

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

### 1.4 Going concern

The Directors have assessed the likelihood the Group will be able to meet its debts as they fall due for the foreseeable future, being a period at least twelve months after the date of these accounts (the “Going Concern period”), including the impact that the COVID-19 pandemic has had on the UK economy and, therefore, the Group.

As covered extensively in the strategic review, COVID-19 has impacted the Group’s borrowers through the extended period of lockdown. Dealers have been substantively closed, their retail sales have slowed, and stock has turned at a slower pace than we would normally expect, which has impacted repayment of the Group’s loans.

Additionally, as a reaction to the public health crisis, the Group’s lenders have tightened their own credit appetite, which has seen the Group’s ability to transact new lending significantly curtailed and cash flow from the lending facility to the Group has also been constrained.

In light of these points, the Group has performed analysis to assess the Group’s resilience during an extended period of stress, assessing both capital and liquidity resilience in challenging circumstances, while also considering appropriate and reasonable management actions. This approach to analysis is in line with common practices for banks in assessing the impact of stress on the firm’s business plan. In performing this stress analysis, the Directors have also assessed the going concern of the Company, by considering the wide range of information, the current funding strategy, dealers facing a 6 month impact of lockdown and slower loan repayments during that period, potential insolvencies and significantly elevated losses running at 4x the 2019 loss rate, whilst also taking in to account the strong security position of the lending product (c.68% of retail sales value). The Directors believe, on the basis of this information and management’s analysis, that the assumptions used are plausible and present a significant downside scenario. In this scenario the analysis suggests, with effective management actions, that the Group would withstand a severe impact of COVID-19.

Whilst loan book performance has been strong at the time of writing, operating inside of the firm’s downside scenario, the current economic outlook remains uncertain. In light of this uncertainty and firm specifics, the Directors have reassessed the

Group’s cashflow forecasts for 12 months from 25 June 2020 and have determined that the Group may not be able to meet its liabilities as they fall due beyond December 2020 in the absence of any successful management actions.

Specific factors that could impact the firm, but are considered to have appropriate management actions already in progress and have been covered in the strategic review, are:

- Dealer sales not increasing following the recent relaxation of lockdown restrictions and accordingly the firm’s loans are repaid more slowly than current experience to date;
- Dealers fail in significant numbers, in turn impacting the firm’s security position and the Group realises highly elevated write-offs, well above the levels experienced to date;
- The Group fails to negotiate the release of cash from its existing lending facility through any extended periods of waiver; or fails to obtain alternative wholesale financing (such as the British Business Bank Enable Funding application);
- The firm’s fails to negotiate the reschedule of the unsecured loan repayment due to TruFin plc in December 2020; and
- The firm is not granted a banking licence by the regulators, who have until August 2020 to consider the firm’s application.

The Group has already taken action to tighten the Group’s cost base, withdrawing bonuses and incentive payments and mitigating potential credit losses by implementing enhanced remote auditing techniques and new technology solutions, supplementing its conventional approach to risk management. Further action could be taken to manage dealers to their contractual repayment dates and encourage an accelerated reduction in the loan book.

In light of the progress made to date in relation to the identified management actions, the Directors are confident that the Group is making sufficient progress in mitigating the firm specific factors and its cash position, which would allow positive cash reserves to be maintained over the next 12 months. Many of the management actions are in advanced stages, however none have yet been contractually negotiated. As these actions are not solely within management’s control and, furthermore given the level of economic uncertainty, there is a possibility that external factors could adversely impact the Group’s going concern assessment, the Directors’ have determined that the conditions above represent a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. Nevertheless, after considering these uncertainties, the Directors believe that the actions management are pursuing are reasonable, viable and highly executable, which would allow the Group to continue for the foreseeable future. Therefore, the Directors have adopted the going concern basis of accounting in preparing the financial statements.

### 1.5 Critical accounting estimates and judgements

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

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

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

### 1.6 Foreign currencies

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

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

### 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 2019, the Group has applied all new IFRS standards and foresees no additional standards with a likely material impact to consider at this time.



Notes to the Financial Statements continued

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 deposited, 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.

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

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 and the carrying amount of the asset and 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 an expected £nil 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.

## Notes to the Financial Statements continued

### 2.5 Assets classified as held for sale

Whilst assessing whether any assets should be classified as held for sale, the management of the Group ensure that the status of the asset satisfies all the following criteria as set out within IFRS 5:

- The carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use;
- the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- its sale must be highly probable and within one year from the date of classification;
- management must be committed to a plan to sell the asset; and
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value.

In the event an asset satisfies the criteria, prior to reclassification the asset should be valued in accordance with IFRS accounting standards applicable to the asset in question.

At initial recognition the asset is measured at the lower of carrying amount and fair value less costs to sell. Any unrealised gains or losses are recognised in other comprehensive income. Upon disposal of the assets the corresponding gain or loss is transferred into the income statement in the same period as the sale. The assets fair value is reviewed on an ongoing basis with any further gains or losses recognised through other comprehensive income.

### 2.6 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. 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 the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

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

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

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

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

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

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

If circumstances change sufficiently at subsequent reporting dates, an asset is referred to by its newly appropriate Stage, and is



## Notes to the Financial Statements continued

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, Distribution Finance Capital 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 30 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 30 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.

### 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

## Notes to the Financial Statements continued

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.

## 2.7 Current and deferred income tax

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

Current tax is the expected tax payable or receivable on the taxable income for the period, using tax rates enacted or substantively enacted at the 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.

## 2.8 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.

## 2.9 Leasing

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

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.

### IFRS 16 transition

The Group has elected not to retrospectively restate prior period comparatives given the Directors deem the impact of the new accounting standard to be immaterial. As such, the Directors have elected to follow the ‘modified retrospective approach’ whereby the Group does not restate prior period comparatives. The remaining lease payments are projected from a



## Notes to the Financial Statements continued

commencement date of 1 January 2019 and discounted from this effective date.

### 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 Distribution Finance Capital 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.

The illustrative earnings per share has been calculated on the same basis as the adjusted earnings per share, with the exception that the denominator of the number of shares equals to the number of shares as at 31 December 2018. The Directors have included this subjective metric as before the initial public offering and £25 million equity injection in May 2019, the Group remains largely unchanged in terms of strategy and operations, so provides a useful metric of the Group's performance.

### 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.

### 2.15 Merger accounting

#### Business combination and merger accounting

The Group has assessed the transactions which resulted in the newly formed Group as detailed in note 1.2 of these financial statements. The Group has 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 – further details upon this assumption can be found in note 3.1 of these financial statements. 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 IPO. Therefore, these consolidated financial statements have been prepared in accordance with the presentation and accounting standards applied within the audited financial statements of Distribution Finance Capital Ltd for the year ended 31 December 2018.

#### Merger reserve

As detailed in section 1.1 of the notes to these financial statements, following the initial public offering of DFCH plc, the Company is now the ultimate controlling party of the Group. The Board of Directors elected to account for the transaction using merger accounting which prescribes that any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity at the date of transaction is included in equity in retained earnings or in a separate reserve account. Therefore, on consolidation of the Group financial statements, the difference between the consideration paid (proceeds from the initial public offering) and the book value of Distribution Finance Capital Ltd is recognised as a Merger Reserve, in accordance with relevant accounting standards relating to businesses under common control.

### 2.16 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.

Notes to the Financial Statements continued

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

3.1 Critical accounting judgements

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

Loan derecognition

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

Transaction costs directly incremental to equity raising

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

Complexity arises given that IAS 32 provides prescriptive guidance that transaction costs which are incremental and directly attributable to the issuance of new equity instruments can be deducted from equity rather than recognised as an expense in the profit or loss. This presents difficulty because the activities of the £25 million equity injection by TruFin were strictly conditional on the sale of DFC Ltd to DFCH plc and successful IPO of DFCH plc. Although the majority of the costs were incurred due to the sale of DFC Ltd and IPO, these were not necessarily equity raising as no consideration was generated from these transactions alone. However, due to the interdependencies of the £25 million equity injection to these events, a portion of the costs have been allocated to the raising of equity and resultantly be deducted from equity. This requires a degree of subjectivity given some of the transaction costs are grouped and cover various activities so at times a subjective apportionment is followed so that only those transaction costs are accounted for through equity reserves with the remainder through the income statement. The Group capitalised £532,000 of transaction costs relating to the initial public offering through retained earnings during the year ended 31 December 2019.

IFRS 3: Business Combinations & FRS 102: Merger Accounting

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

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

The second part of the transaction constituted the admission of the Company’s shares on the Alternative Investment Market (AIM) of the London Stock Exchange on 9 May 2019. A key component and objective of the initial public offering was for the

controlling party to reduce their shareholding below 50% so no party had a controlling interest in the Company. Although this transaction clearly indicates a loss of control by TruFin, the principal activity of DFCH plc is that of an investment holding company given its primary activity is the ownership of a single subsidiary, DFC Ltd. This is not deemed sufficient to be considered a ‘business’ under IFRS as the Company does not offer any value or return to the Group. IFRS 3 Business Combinations cannot be applied because the Company does not meet the definition of a business so cannot be deemed a combination of businesses.

In the absence of applicable IFRS accounting standards to follow, the Group has assessed the applicability of other relevant standards to adopt. Given that the underlying management and operating activities of the Group remain unchanged from the transaction, the Directors have taken this into consideration and elected to adopt “Merger Accounting”, defined in FRS 102, see note 2.15 in these consolidated financial statements for further details on the accounting treatment.

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

- Where an asset has a maturity of 12 months or less, the “12 month ECL” and the “lifetime ECL” have the same effective meaning and accordingly for such assets the calculated loss allowance will be the same whether such an asset is at Stage 1 or Stage 2. Given the preponderance of short term lending, the Group’s combined loss allowance is not materially affected by the allocation of assets between Stages 1 and 2, nor by any significant subjectivity in the forward-looking estimates that are applied.
- The probability of default (“PD”) is an estimate of the likelihood of default over a given time horizon and is a key input to the ECL calculation. The Group uses credit scores from credit reference agencies to calculate the PD for loans and advances to customers. The score is a 12-month predictor of credit failure and, in the absence of internally generated loss history, the Group believes that it provides the best proxy for the credit quality of the loan portfolio.
- Exposure at default (“EAD”) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including expected drawdowns on committed facilities, and accrued interest up to the point of default.
- Loss given default (“LGD”) is an estimate of the loss arising on default. It is based on the difference between the exposure at default and expected discounted cashflows the lender would expect to receive in a distressed scenario, in particular taking into account wholesale collateral values and certain buy back options.

The Group has considered the key areas of estimation used within the IFRS 9 impairment calculation and identified the variables which propose a material risk in terms of the preparation of the financial statements. The only variable considered to present a material risk of estimation uncertainty is the collateral values which are used within the loss given default (LGD) calculation. The Group has assessed that if the loss given default increased by a factor of 4, this would generate an additional impairment allowance of approximately £1,400,000 at 31 December 2019 (31 December 2018: £400,000), which increases the loss allowance coverage to 1.33% from 0.67%.

4. Interest and similar income

	2019 £’000	2018 £’000
On loans and advances to customers	12,144	4,799
On loans and advances to banks	75	29
On employee loan agreements	11	-
	12,230	4,828

5. Operating segments

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



## Notes to the Financial Statements continued

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 expense

	2019 £'000	2018 £'000
Interest paid to related parties	812	1,026
Wholesale funding interest	7,602	2,145
Preference shares*	(207)	332
	<b>8,207</b>	<b>3,503</b>

\*As detailed in note 28, during the year ended 31 December 2019, £3.5 million of preference shares plus £368,000 accrued interest were redeemed on 11<sup>th</sup> April 2019 by TruFin Holdings Limited. The interest accrued in the financial statement was accrued under the effective interest rate methodology using a discount factor of 12%. In accordance with the contractual agreement, the preference shares had a 5% per annum nominal interest rate attached. This disparity in the interest expense accrual methodology and contractual interest rate for the purpose of redemption resulted in an interest write back of £310,000.

### 7. Fee income

	2019 £'000	2018 £'000
Facility-related fees	358	351
	<b>358</b>	<b>351</b>

### 8. Staff costs

#### Analysis of staff costs:

	2019 £'000	2018 £'000
Wages and salaries	8,050	4,578
Contractor costs	238	622
Social security costs	1,295	515
Pension costs arising on defined contribution schemes	271	136
	<b>9,854</b>	<b>5,851</b>

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

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

	2019 No.	2018 No.
Management	13	11
Finance	6	5
Sales & Marketing	16	9
Operations	35	20
Technology	10	6
	<b>80</b>	<b>51</b>

#### Directors' emoluments:

	Fees/Basic Salary £'000	Benefits in kind £'000	Bonuses* £'000	Pension** £'000	2019 Total £'000	2018 Total £'000
<b>Executive Directors:</b>						
Henry Kenner	59	-	-	-	59	50
Chris Dailey	362	6	301	26	695	373
Gavin Morris	244	6	170	18	438	148
	<b>665</b>	<b>12</b>	<b>471</b>	<b>44</b>	<b>1,192</b>	<b>571</b>
<b>Non-Executive Directors:</b>						
John Baines	172	-	-	-	172	100
Mark Stephens	129	-	-	-	129	75
James Van den Bergh	-	-	-	-	-	-
Carole Machell	93	-	-	-	93	44
Thomas Grathwohl	93	-	-	-	93	-
David Bateman	14	-	-	-	14	50
	<b>501</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>501</b>	<b>269</b>
<b>Total Directors Remuneration</b>	<b>1,166</b>	<b>12</b>	<b>471</b>	<b>44</b>	<b>1,693</b>	<b>840</b>

In April 2019, the Directors were appointed to the Company from Distribution Finance Capital Ltd as part of the group reorganisation. The table above includes all emoluments earned by the Directors, as employees of the Company and Distribution Finance Capital Ltd, throughout the years ended 31 December 2019 and 31 December 2018.

\* Bonuses for the year ended 31 December 2019 include £301,000 to Chris Dailey and £19,000 to Gavin Morris to partially cover the cost of loans advanced in respect of tax liabilities on shares issued to these individuals to reduce the dilution impact of their shareholdings arising from the issue of shares to TruFin Holdings Ltd prior to the demerger.

\*\* The pension for the year ended 31 December 2019 to Chris Dailey and Gavin Morris of £26,000 and £18,000 respectively is the amount of payments made to these individuals in lieu of Group pension contributions.

## Notes to the Financial Statements continued

## 9. Other operating expenses

	2019 £'000	2018 £'000
IT related expenses	963	463
Office premises costs*	142	340
Audit & consulting fees**	480	229
Management fees	26	69
Legal and compliance fees	413	98
VAT related expenses	444	468
Sundry expenses	1,248	1,027
	<b>3,716</b>	<b>2,695</b>

\*In the year ended 31 December 2019, the Group has adopted IFRS 16 and, therefore, a significant portion of the costs relating to property leases have been treated in accordance with IFRS 16 and thus shown as finance costs (see note 10) and depreciation of right-of-use assets (see note 17). The remaining costs included in the above table do not meet the recognition criteria of IFRS 16 so are still treated as other operating expenses. Property costs included in the year ended 31 December 2018 have not been restated and are treated in accordance with IAS 17 Leases.

\*\*See note 14 for further analysis on the auditor fees incurred during the periods. A significant portion of the non-audit service fees incurred were related to the initial public offering of the Company and were treated as exceptional expenses – see note 11 for further details.

## 10. Finance costs

	2019 £'000	2018 £'000
Interest expense on lease liabilities*	29	-
	<b>29</b>	<b>-</b>

\* The lines indicated are in respect of the application of IFRS 16 in the current year only.

## 11. Exceptional items

	2019 £'000	2018 £'000
Initial public offering transaction costs	2,125	-
	<b>2,125</b>	<b>-</b>

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

## 12. Provisions

Analysis for movements in other provisions:

	At 31 December 2018 £'000	Additions £'000	Utilisation of provision £'000	Unused amounts reversed £'000	At 31 December 2019 £'000
Social security and levies on share schemes	737	31	(683)	(85)	-
Consultancy fee payments tax liability	105	-	-	-	105
Severance payments	-	377	(40)	-	337
Sundry claims	4	-	-	(4)	-
Leasehold dilapidations	-	91	-	-	91
	<b>846</b>	<b>499</b>	<b>(723)</b>	<b>(89)</b>	<b>533</b>

As at 31 December 2018, a number of employees had previously received shares in Distribution Finance Capital Ltd which resulted in an estimated tax liability due to HMRC for PAYE taxes, Employee NIC and Employer NIC of £737,000. During the year ended 31 December 2019, the Group requested an external third party to perform a valuation of the share transactions, based on this the Group recognised a tax liability creditor to HMRC of £683,200. The liability was reported to HMRC in 2019 and settled by cash payment in January 2020.

The consultancy fee payments tax liability relates to the recognition of a tax liability in relation to PAYE and national insurance contributions that should have been deducted relating to consultancy fees paid. This has been notified to HMRC and the Group is awaiting confirmation of the agreed settlement amount.

In the year ended 31 December 2019, the Group recognised onerous severance payments of £377,000 which are payable up to October 2020. The Group to date has made payments of £40,000 resulting in a remaining provision balance at 31 December 2019 of £337,000. The Group expects to settle this obligation in full by October 2020.

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 restoration costs are payable either when the lease contract expires or is terminated by either party, whichever occurs first. The Group currently estimates restoration cost payments of £33,000 and £58,000 to be paid in April 2023 and July 2023 respectively.

## 13. Net impairment loss on financial assets

	2019 £'000	2018 £'000
Movement in impairment allowance in the year	1,336	116
Write-offs*	246	-
Write-back of amounts written-off	-	-
	<b>1,582</b>	<b>116</b>

\*Analysis of write-offs are as follows:

	2019 £'000	2018 £'000
Realised losses on loan receivables (see note 20)	59	-
Realised losses on trade receivables (see note 22)	7	-
Loss on disposal of assets held for sale (see note 19)	74	-
Recovery transaction costs	114	-
Bad debt VAT relief	(8)	-
	<b>246</b>	<b>-</b>



## Notes to the Financial Statements continued

### 14. Loss before taxation

Loss before taxation is stated after charging:

	2019 £'000	2018 £'000
Depreciation of property, plant and equipment	118	60
Depreciation of right-of-use assets	185	-
Loss on disposal of property, plant and equipment	22	-
Amortisation of intangible assets	155	49
Allowance for credit impaired assets	1,336	116
Staff costs	9,854	5,851
Operating lease rentals	-	278
Auditor's remuneration	764	90
	<b>12,434</b>	<b>6,444</b>

Analysis of auditor's remuneration:

	2019 £'000	2018 £'000
<b>Audit services</b>		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	99	-
Fees payable to the Company's auditor for the audit of its subsidiaries	20	90
	<b>119</b>	<b>90</b>
<b>Assurance services</b>		
IPO due diligence work	561	-
Interim review	45	-
Regulatory assurance work	39	-
	<b>645</b>	<b>-</b>
	<b>764</b>	<b>90</b>

### 15. Taxation

Analysis of tax charge recognised in the period:

	2019 £'000	2018 £'000
Current tax charge/ (credit)	-	-
Deferred tax charge/ (credit)	-	-
	<b>-</b>	<b>-</b>

Reconciliation of loss before tax to total tax credit recognised:

	2019 £'000	2018 £'000
Loss before taxation	(13,500)	(7,264)
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(2,565)	(1,380)
<b>Adjustments:</b>		
Disallowable expenses	700	13
Depreciation & amortisation	52	21
Capital allowances	(60)	(9)
Capital items expensed	24	1
Other short-term timing differences	7	2
Reversal of prior year losses for which no deferred tax asset was recognised	(1,866)	(947)
Adjust closing deferred tax to rate at which losses expect to be utilised (17%)	163	434
Cumulative taxable losses for which no deferred tax asset was recognised	3,545	1,866
<b>Total tax credit</b>	<b>-</b>	<b>-</b>

Taxation is calculated using the UK corporation tax rate of 19% (2018: 19%) of the estimated taxable profit for the year.

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.

The corporation tax main rate has been confirmed for the years starting 1 April 2017, 2018 and 2019. In the summer 2015 Budget, the government announced plans to reduce the main rate to 18% for the year starting 1 April 2020 and a further reduction to 17% for year starting 1 April 2020. In the 2020 Budget, the government announced that the Corporation Tax main rate for the years starting 1 April 2020 and 2021 would not reduce to 18% and 17% respectively but instead remain at 19% for both periods.

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 any period given it does not anticipate to generate taxable profits in the 12-month period following the 31 December balance sheet date which can be offset against unused taxable losses. As at 31 December 2019, the Group has estimated £3.55 million (31 December 2018: £1.89 million) of unused tax credits for which a deferred tax asset has not been recognised against.

## Notes to the Financial Statements continued

## 16. Property, plant and equipment

	Leasehold Improvements £'000	Furniture, Fixtures & Fittings £'000	Computer Hardware £'000	Telephony & Communications £'000	Total £'000
<b>Cost</b>					
<b>As at 1 January 2018</b>	-	11	32	4	47
Additions	23	93	135	2	253
Disposals	-	-	-	-	-
<b>As at 31 December 2018</b>	23	104	167	6	300
Additions	3	33	116	-	152
Disposals	-	-	(54)	-	(54)
<b>As at 31 December 2019</b>	26	137	229	6	398
<b>Depreciation</b>					
<b>As at 1 January 2018</b>	-	3	6	1	10
Charge for the year	3	15	40	2	60
Eliminated on disposals	-	-	-	-	-
<b>As at 31 December 2018</b>	3	18	46	3	70
Charge for the year	8	38	70	2	118
Eliminated on disposals	-	-	(32)	-	(32)
<b>As at 31 December 2019</b>	11	56	84	5	156
<b>Carrying Amount</b>					
At 31 December 2018	20	86	121	3	230
<b>At 31 December 2019</b>	15	81	145	1	242

## 17. Right-of-use assets

	Buildings £'000
<b>Cost</b>	
<b>As at 1 January 2019</b>	-
Adoption of IFRS 16	823
<b>Restated balance as at 1 January 2019</b>	823
Additions	-
<b>As at 31 December 2019</b>	823
<b>Depreciation</b>	
<b>At 1 January 2019</b>	-
Charge for the year	185
<b>At 31 December 2019</b>	185
<b>Carrying Amount</b>	
<b>At 1 January 2019</b>	-
At 1 January 2019 restated	823
<b>At 31 December 2019</b>	638

During the year ended 31 December 2019 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 5 years (2018: 5 years). 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. As such, restoration costs of £91,000 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 12 for further details on the corresponding provision recognised. Finally, as at 31 December 2018, the Group had £42,000 of unspent prepayment balance relating to costs applicable under IFRS 16. These unspent prepayment balances have been added to the right-of-use asset at initial recognition and depreciation of the applicable term.

The maturity analysis of lease liabilities is presented in note 30.

## Amounts recognised in the income statement:

	2019 £'000
Depreciation expense on right-of-use assets	185
Interest expense on lease liabilities	29
Expense relating to leases of low value assets	4
Expenses relating to variable lease payments not included in measurement of lease liability	58
	<b>276</b>



## Notes to the Financial Statements continued

Some of the property leases in which the Group is the lessee contain variable lease payment terms due 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:

	2019 £'000
Fixed payments	182
Variable payments	62
	<b>244</b>

## 18. Intangible assets

	Computer Software £'000
<b>Cost</b>	
<b>At 1 January 2018</b>	-
Additions from internal development	574
Additions from separate acquisitions	95
Disposals	-
<b>At 31 December 2018</b>	<b>669</b>
Additions from internal development	393
Additions from separate acquisitions	4
Disposals	-
<b>At 31 December 2019</b>	<b>1,066</b>
<b>Amortisation</b>	
<b>At 1 January 2018</b>	-
Charge for the year	49
<b>At 31 December 2018</b>	<b>49</b>
Charge for the year	155
<b>At 31 December 2019</b>	<b>204</b>
<b>Carrying Amount</b>	
At 31 December 2018	620
<b>At 31 December 2019</b>	<b>862</b>

In the year ended 31 December 2019, the Group capitalised £312,000 (Dec18: £210,000) of consultancy costs and £81,500 (Dec18: £365,000) of employee costs in relation to the development of software platforms aimed at improving the commercial lending processes, customer journey for commercial clients and development of retail customer deposits platform. The amortisation period for these software costs is within a range of 3-5 years following an individual assessment of the asset's expected life. The Group performed an impairment review at 31 December 2019 and concluded no impairment was required.

## 19. Assets classified as held for sale

	2019 £'000	2018 £'000
<b>At 1 January</b>	<b>266</b>	-
Additions	33	257
Amounts written off	(74)	-
Transaction costs	15	9
Disposal proceeds	(240)	-
<b>At 31 December</b>	<b>-</b>	<b>266</b>

## 20. Loans and advances to customers

	2019 £'000	2018 £'000
Gross carrying amount	209,449	114,113
less: impairment allowance	(1,409)	(169)
less: effective interest rate adjustment	(404)	(149)
	<b>207,636</b>	<b>113,795</b>

Refer to note 30 for details on the expected maturity analysis of the gross loans receivable balance.

Refer to note 13 and 30 for further details on the impairment losses recognised in the periods.

### Ageing analysis of gross loan receivables:

	2019 £'000	2018 £'000
<b>Unimpaired:</b>		
Not yet past due	206,000	113,253
past due: 0 - 30 days	404	645
past due: 31 - 60 days	128	119
past due: 61 - 90 days	46	32
past due: 90+ days	-	14
	<b>206,578</b>	<b>114,063</b>
<b>Impaired:</b>		
past due and impaired: 0 - 90 days	2,117	20
past due and impaired: 90+ days	754	30
	<b>2,871</b>	<b>50</b>
	<b>209,449</b>	<b>114,113</b>

## Notes to the Financial Statements continued

## Analysis of gross loan receivables in accordance with impairment losses:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>As at 1 January 2019</b>	<b>91,359</b>	<b>22,620</b>	<b>134</b>	<b>114,113</b>
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	-
New financial assets originated	498,168	806	-	498,974
Repayments	(380,559)	(14,891)	(8,129)	(403,579)
Write-offs	-	-	(59)	(59)
Total movement in loss allowance	<b>110,634</b>	<b>(18,035)</b>	<b>2,737</b>	<b>95,336</b>
<b>As at 31 December 2019</b>	<b>201,993</b>	<b>4,585</b>	<b>2,871</b>	<b>209,449</b>
<b>Loss allowance coverage at 31 December 2019</b>	0.17%	0.89%	35.81%	0.67%

\*During the year ended 31 December 2019 the Group has further refined the IFRS 9 model, in particular, focusing on the assessment of credit risk at initial recognition and has reviewed and confirmed the definition of default. Firstly, the Group previously recognises the dealer credit facility as the loan receivable as a whole. Following further consideration, the Group has amended its approach by identifying each loan receivable separately. The predominant driver behind this change being that the Group makes individual credit decisions when funding each asset and is not obligated to fund assets under the terms of the credit facility. This change has resulted in an increase in the relative percentage of our credit risk classified in stage 1. The Group considers this to be a more accurate representation of the credit risk within the portfolio and represent actual significant increases in credit risk versus the initial lend decision for each loan and more accurately reflects changes in credit risk from then onwards which would align to a stage 2 asset. Finally, the Group has made further adjustments to the definition of default to ensure it fully aligns with the Prudential Regulation Authority (PRA) definition in preparation for the banking licence.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>As at 1 January 2018</b>	<b>30,390</b>	-	-	<b>30,390</b>
Changes in IFRS 9 model & parameters	-	-	-	-
Transfer to Stage 1	521	(521)	-	-
Transfer to Stage 2	(26,577)	26,577	-	-
Transfer to Stage 3	(128)	(286)	414	-
New financial assets originated	202,329	-	3	202,332
Repayments	(115,175)	(3,150)	(282)	(118,607)
Write-offs	-	-	-	-
Total movement in loss allowance	<b>60,969</b>	<b>22,620</b>	<b>134</b>	<b>83,725</b>
<b>As at 31 December 2018</b>	<b>91,359</b>	<b>22,620</b>	<b>134</b>	<b>114,113</b>
<b>Loss allowance coverage at 31 December 2018</b>	0.10%	0.14%	36.89%	0.15%

## Analysis of impairment losses on loans and advances to customers:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>As at 1 January 2019</b>	<b>88</b>	<b>32</b>	<b>49</b>	<b>169</b>
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	-
Increase in impairment allowances	877	49	1,430	2,356
Repayments	(764)	(22)	(295)	(1,081)
Write-offs	-	-	(57)	(57)
Total movement in loss allowance	<b>252</b>	<b>9</b>	<b>979</b>	<b>1,240</b>
<b>As at 31 December 2019</b>	<b>340</b>	<b>41</b>	<b>1,028</b>	<b>1,409</b>

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>As at 1 January 2018</b>	<b>64</b>	-	-	<b>64</b>
Transfer to Stage 1	42	(42)	-	-
Transfer to Stage 2	(49)	-	49	-
Transfer to Stage 3	-	-	-	-
Increase in impairment allowances	226	103	-	329
Repayments	(195)	(29)	-	(224)
Write-offs	-	-	-	-
Total movement in loss allowance	<b>24</b>	<b>32</b>	<b>49</b>	<b>105</b>
<b>As at 31 December 2018</b>	<b>88</b>	<b>32</b>	<b>49</b>	<b>169</b>

## 21. Debt securities

	2019 £'000	2018 £'000
<b>At 1 January</b>	<b>4,994</b>	-
Purchased debt securities	92,045	5,993
Realised gains	<b>67</b>	-
Unrealised gains	4	1
Proceeds from maturing securities	(89,116)	(1,000)
<b>At 31 December</b>	<b>7,994</b>	<b>4,994</b>
<b>Maturity profile of debt securities:</b>		
Within 12 months	7,994	4,994
Over 12 months	-	-

The securities are valued at fair value through other comprehensive income ("FVTOCI") using closing bid prices at the reporting date.



## Notes to the Financial Statements continued

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 2019 (31 December 2018: £nil).

Refer to note 30 for details of the maturity profile of these securities.

### 22. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	248	90
Impairment allowance	(107)	(11)
	<b>141</b>	<b>79</b>
Other debtors	576	1,190
Employee loans	723	-
Accrued Income	441	401
Prepayments	1,625	1,191
	<b>3,365</b>	<b>2,782</b>
	<b>3,506</b>	<b>2,861</b>

All trade receivables are due within one year, refer to note 30 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:

	2019 £'000	2018 £'000
<b>Unimpaired:</b>		
Not yet past due	109	26
past due: 0 - 30 days	10	11
past due: 31 - 60 days	6	-
past due: 61 - 90 days	20	5
past due: 90+ days	-	36
	<b>145</b>	<b>79</b>
<b>Impaired:</b>		
past due and impaired: 0 - 90 days	3	5
past due and impaired: 90+ days	100	6
	<b>103</b>	<b>11</b>
	<b>248</b>	<b>90</b>

#### Analysis of movement of impairment losses on trade receivables:

	2019 £'000	2018 £'000
<b>Balance at 1 January</b>	<b>11</b>	<b>-</b>
Changes in IFRS 9 model & parameters	15	-
Amounts written off	(7)	-
Amounts recovered	-	-
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	88	11
<b>Balance as at 31 December</b>	<b>107</b>	<b>11</b>

### 23. Notes to the cash flow statement

#### Cash and cash equivalents:

	2019 £'000	2018 £'000
Cash held at bank	14,122	7,556
	<b>14,122</b>	<b>7,556</b>

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.

#### 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 2019	Financing cash flows	Recognition of lease liabilities	Non-cash changes Interest expense on lease liabilities	31 December 2019
Lease liabilities (see note 27)	-	(182)	690	29	537
<b>Total liabilities from financing activities</b>	<b>-</b>	<b>(182)</b>	<b>690</b>	<b>29</b>	<b>537</b>

The Group had no changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes, for the year ended 31 December 2018.

## Notes to the Financial Statements continued

### 24. Investment in subsidiaries

Subsidiary	Principal Activity	Shareholding %	Class of shareholding	Country of incorporation	Registered Address
Distribution Finance Capital Ltd	Financial Services	100%	Ordinary	UK	196 Deansgate, Manchester, M3 3WF
DFC Funding No.1 Ltd*	Special Purpose Vehicle	0%	Not applicable	UK	11 <sup>th</sup> Floor 200 Aldersgate Street, London, EC1A 4HD

\*The share capital of the special purpose vehicle is not owned by the Group but the vehicle is included within the consolidated financial statements as they are controlled by the Group and exposed to the business risks of the entity. The registered address of DFC Funding No.1 Ltd is 11<sup>th</sup> Floor 200 Aldersgate Street, London, UK, EC1A 4HD.

### 25. Equity

	2019 No.	2018 No.	2019 £'000	2018 £'000
<b>Authorised:</b>				
Ordinary shares of 1p each	106,641,926	17,240,000	1,066	17
Allotted, issued and fully paid: Ordinary shares of 1p each	106,641,926	17,240,000	1,066	17

#### Analysis of the movements in equity:

	Date	No. of shares #	Issue Price £	Share Capital £'000	Share Premium £'000	Merger Relief £'000	Total £'000
<b>Balance at 1 January 2018</b>		<b>5,000,000</b>		<b>5</b>	<b>3,296</b>	<b>-</b>	<b>3,301</b>
Debt to equity conversion	16-Mar-18	6,002,000	4,544.59	6	27,271	-	27,277
Cancellation of share premium account	16-Mar-18	-	-	-	(30,567)	-	(30,567)
Share acquisition	19-Mar-18	430,000	1	-	-	-	-
Issue of new shares - DFC Ltd	08-Jun-18	5,808,000	6,198.35	6	35,994	-	36,000
<b>Balance at 1 January 2019</b>		<b>17,240,000</b>	<b>-</b>	<b>17</b>	<b>35,994</b>	<b>-</b>	<b>36,011</b>
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
<b>Balance at 31 December 2019</b>		<b>106,641,926</b>		<b>1,066</b>	<b>-</b>	<b>94,911</b>	<b>95,977</b>

During the financial year ended 31<sup>st</sup> December 2018, all shares were sub-divided by 1:1000 shares. In the above table, all share transactions have been illustrated as if share sub-division occurred at the start of the period.

Furthermore, in May 2019 the Group executed a demerger from TruFin Holdings Limited and the Company became the controlling party of the newly formed Group. Share transactions included before 9<sup>th</sup> May 2019 are equity transactions of Distribution Finance Capital Ltd and are shown as comparative information given the Group has elected to adopt the FRS 102 Merger Accounting principles as detailed in note 2.15 and note 3.1 of these consolidated financial statements.

During the year ended 31 December 2019, the Group and its subsidiary executed the following share transactions:

- On the 7<sup>th</sup> May 2019, the day preceding the initial public offering, DFC Ltd issued 6,530,303 of new shares with a nominal value of £0.001 each to TruFin Holdings Limited for a total consideration of £25 million. This resulted in additional share capital in DFC Ltd of £6,530 and share premium of £24,993,469.
- On the 8<sup>th</sup> May 2019, a number of employees and Directors were granted a total of 173,244 shares in DFC Ltd prior to the initial public offering. The shares were awarded in order to offset the dilution of the shareholdings due to the exchange of DFC Ltd shares into DFCH plc shares to facilitate DFC Ltd becoming a wholly-owned subsidiary of the DFCH plc. All shares were granted at a price of £0.001 per share which resulted in no additional share premium.
- On the 8<sup>th</sup> May 2019, DFC processed a group reorganisation whereby TruFin Holdings Limited transferred all shares held in DFC Ltd in exchange for shares in DFCH plc, which resulted in TruFin Holdings Limited becoming the controlling party in DFCH plc. This transaction resulted in DFC Ltd being a wholly owned subsidiary of DFCH plc.
- On 9<sup>th</sup> May 2019, the day of admission to the Alternative Investment Market (AIM), DFCH plc issued 106,641,926 shares in the initial public offering at a consideration of 90p per share with a nominal value of 1 pence each. This resulted in total consideration of £95,977,733 of which is allocated as £1,066,419 in share capital and £94,911,314 in premium, which in accordance with the Companies Act 2006 section 612, is recognised as Merger Relief (see note 2.14). TruFin Holdings Limited sold a significant portion of the shares held in DFCH plc through the IPO and were no longer the controlling party of the newly formed Group.

### 26. Merger reserve

As detailed in note 2.15 of these consolidated financial statements, the Group has elected to account for the change in ownership of DFC Ltd through Merger Accounting under FRS 102. Alongside this approach the Group is presenting the financial results using the retrospective methodology which shows the Group results as if the Group had been formed in prior periods. The Directors decided on this approach given the underlying business activities and operations of the Group remain largely unchanged following the change in ownership so still provide useful comparatives.

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

Furthermore, as the Group is applying the retrospective methodology, the Directors have elected to present the income statement as if the Group had always existed, therefore, presenting an income statement for the full 12 month period. In terms of the accounting for the retained earnings within the year, the losses incurred up to the acquisition date are accounted for under the merger reserve and the losses incurred after the acquisition date through the retained earnings account.

#### Analysis of the merger reserve account:

	2019 £'000	2018 £'000
Consideration from initial public offering	95,977	-
Net assets of DFC Ltd at acquisition date	(75,368)	-
<b>Merger reserve</b>	<b>20,609</b>	<b>-</b>



## Notes to the Financial Statements continued

### 27. Lease liabilities

	2019 £'000
<b>Analysed as:</b>	
Non-current	377
Current	160
	<b>537</b>
<b>Maturity Analysis:</b>	
Year 1	182
Year 2	182
Year 3	182
Year 4	39
Year 5	-
Onwards	-
	<b>585</b>
Less: unearned interest	(48)
	<b>537</b>

There are no extension options within the leases as at 31 December 2019. Although the lease agreements contain break and/or early termination clauses, the Group has assessed the likeliness of enacting the applicable clauses and taken this into consideration when estimating the future expected cashflows under the lease agreement.

The fair value of the Group's lease obligations as at 31 December 2019 is estimated to be £537,145 (2018: £nil) 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.

### 28. Financial liabilities

	2019 £'000	2018 £'000
Loans with related parties	13,925	10,293
Wholesale funding	150,151	59,041
Lease liabilities	537	-
Preference Shares	50	3,111
	<b>164,663</b>	<b>72,445</b>

#### Loans with related parties:

Prior to the IPO of DFCH plc, in April 2019, DFC Ltd received an additional £5 million in loan agreements from the TruFin Group. Furthermore, the Group extinguished the redeemable preference shares of £3.5 million held by TruFin Holdings Limited, which accrued £368,000 of interest. The proceeds from these preference shares were used to create a new loan agreement of £3.9 million at an interest rate of 5% per annum. In December 2019, the Group repaid £5 million of principal plus accrued interest to date. At 31 December 2019 the Group has an outstanding loan agreement with TruFin Holdings Limited of £13.9 million (2018: £10million) with accrued interest at the reporting date of £58,000 (2018: £293,000). DFC Ltd has remaining principal repayments due of £5 million in June 2020 and final repayment of the remaining balance in December 2020.

#### Wholesale funding:

In April 2019 the Group increased its wholesale funding facility from £100 million to £155 million and extended the term by 12 months such that the funding line has a revised contractual maturity date of December 2020. In June 2019, alongside the existing wholesale funding facility, the Group partnered with an additional lender to provide a £40.3 million revolving Mezzanine funding facility. In November 2019, the Group announced the departure of its Chief Executive and that such a change of management constituted a waivable early amortisation event pursuant to this wholesale facility with the Group seeking a waiver of this provision in accordance with the terms of the facility. In December 2019 the Senior and Mezzanine Lenders granted a waiver of this early amortisation event, subject to certain terms and conditions including in relation to the progress of appointing a permanent Chief Executive Officer and progress of obtaining a bank licence together with a continued review of the facilities during the first quarter of 2020. At 31 December 2019 the drawn component of these combined funding facilities was £149.8 million (2018: £58.9million) with an additional £382,000 (2018: £115,000) in accrued interest.

#### Lease liabilities:

See note 27 for further details on the lease liabilities of the Group.

#### Preference shares:

As detailed above, the £3.5 million of preference shares held by TruFin Holdings Limited as at 31 December 2018 had a principal financial liability of £2.5 million, £575k of accrued interest under the effective interest rate methodology using a discount rate of 12% and £964k of capital contribution reserve within the retained earnings account. The preference shares were redeemed in full on the 11<sup>th</sup> April 2019 at £3.5million with £368k of accrued interest at the contractual nominal rate of 5% per annum.

As part of the setup of the new Company, Distribution Finance Capital Holdings plc, 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:

	2019 £'000	2018 £'000
Current liabilities	164,236	69,909
Non-current liabilities	427	2,536
	<b>164,663</b>	<b>72,445</b>

## Notes to the Financial Statements continued

### Reconciliation of movement in financial liabilities:

	Loans with related parties £'000	Wholesale funding £'000	Preference shares £'000	Lease liabilities £'000	Total £'000
<b>Balance at 1 January 2018</b>	<b>26,693</b>	<b>9,035</b>	<b>2,779</b>	<b>-</b>	<b>38,507</b>
<b>Financing cashflows:</b>					
Wholesale funding drawdowns	-	49,926	-	-	49,926
Amounts received from related parties	30,000	-	-	-	30,000
Amounts repaid to related parties	(10,000)	-	-	-	(10,000)
Interest paid	(149)	(2,065)	-	-	(2,214)
	<b>19,851</b>	<b>47,861</b>	<b>-</b>	<b>-</b>	<b>67,712</b>
<b>Non-cash changes:</b>					
Debt to equity conversion	(37,277)	-	-	-	(37,277)
Interest expense	1,026	2,145	332	-	3,503
	<b>(36,251)</b>	<b>2,145</b>	<b>332</b>	<b>-</b>	<b>(33,774)</b>
<b>Balance at 31 December 2018</b>	<b>10,293</b>	<b>59,041</b>	<b>3,111</b>	<b>-</b>	<b>72,445</b>
<b>Financing cashflows:</b>					
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)
	<b>(1,048)</b>	<b>83,508</b>	<b>-</b>	<b>(182)</b>	<b>82,278</b>
<b>Non-cash changes:</b>					
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
	<b>4,680</b>	<b>7,602</b>	<b>(3,061)</b>	<b>719</b>	<b>9,940</b>
<b>Balance at 31 December 2019</b>	<b>13,925</b>	<b>150,151</b>	<b>50</b>	<b>537</b>	<b>164,663</b>

### 29. Trade and other payables

	2019 £'000	2018 £'000
<b>Current liabilities</b>		
Trade payables	651	524
Social security and other taxes	2,401	390
Other creditors	1,410	970
Pension contributions	36	17
Accruals	750	580
	<b>5,248</b>	<b>2,479</b>

### 30. 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, liquidity and interest rate risk); and Credit risk. Although the Group is exposed to exchange rate risk, it is considered to be immaterial.

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 28) and equity (comprising issued capital, share premium and retained earnings – see note 25).

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

#### Principal financial instruments

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

- Loans and advances to customers, primarily credit risk, 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;
- 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
<b>31 December 2019</b>				
<b>Assets</b>				
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
<b>Total financial assets</b>	<b>223,198</b>	<b>7,994</b>	<b>-</b>	<b>231,192</b>
Non-financial assets	-	-	-	3,808
<b>Total assets</b>	<b>223,198</b>	<b>7,994</b>	<b>-</b>	<b>235,000</b>
<b>31 December 2019</b>				
<b>Liabilities</b>				
Preference shares	-	-	50	50
Other financial liabilities	-	-	164,613	164,613
Trade payables	-	-	651	651
Other payables	-	-	3,847	3,847
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>169,161</b>	<b>169,161</b>
Non-financial liabilities	-	-	-	1,283
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>169,161</b>	<b>170,444</b>

	Loans and receivables £'000	Fair value through Other Comprehensive Income £'000	Liabilities at amortised cost £'000	Total £'000
<b>31 December 2018</b>				
<b>Assets</b>				
Cash and equivalents	7,556	-	-	7,556
Loans and advances to customers	113,795	-	-	113,795
Debt securities	-	4,994	-	4,994
Trade receivables	79	-	-	79
Other receivables	1,190	-	-	1,190
<b>Total financial assets</b>	<b>122,619</b>	<b>4,994</b>	<b>-</b>	<b>127,613</b>
Non-financial assets	-	-	-	2,710
<b>Total assets</b>	<b>122,619</b>	<b>4,994</b>	<b>-</b>	<b>130,323</b>
<b>31 December 2018</b>				
<b>Liabilities</b>				
Preference shares	-	-	3,111	3,111
Other financial liabilities	-	-	69,334	69,334
Trade payables	-	-	524	524
Other payables	-	-	1,163	1,163
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>74,132</b>	<b>74,132</b>
Non-financial liabilities	-	-	-	1,639
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>74,132</b>	<b>75,771</b>

## 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
<b>31 December 2019</b>					
<b>Financial assets not measured at fair value</b>					
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	-	-
	<b>223,198</b>	<b>223,198</b>	<b>14,122</b>	<b>-</b>	<b>209,076</b>

<b>31 December 2019</b>					
<b>Financial liabilities not measured at fair value</b>					
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
	<b>169,161</b>	<b>169,161</b>	<b>-</b>	<b>-</b>	<b>169,161</b>

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>31 December 2018</b>					
<b>Financial assets not measured at fair value</b>					
Loans and advances to customers	113,795	113,795	-	-	113,795
Trade receivables	79	79	-	-	79
Other receivables	1,190	1,190	-	-	1,190
Cash and equivalents	7,556	7,556	7,556	-	-
	<b>122,619</b>	<b>122,619</b>	<b>7,556</b>	<b>-</b>	<b>115,063</b>

<b>31 December 2018</b>					
<b>Financial liabilities not measured at fair value</b>					
Preference shares	3,111	3,111	-	-	3,111
Other financial liabilities	69,334	69,334	-	-	69,334
Trade payables	524	524	-	-	524
Other payables	1,163	1,163	-	-	1,163
	<b>74,132</b>	<b>74,132</b>	<b>-</b>	<b>-</b>	<b>74,132</b>

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
<b>31 December 2019</b>			
<b>Financial assets measured at fair value</b>			
Debt securities	7,994	-	-
	<b>7,994</b>	<b>-</b>	<b>-</b>

	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>31 December 2018</b>			
<b>Financial assets measured at fair value</b>			
Debt securities	4,994	-	-
	<b>4,994</b>	<b>-</b>	<b>-</b>

### 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. 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.



Notes to the Financial Statements continued

Credit risk management

The Group has a dedicated credit risk function, which is responsible for individual credit assessment, 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:

Granting of credit

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

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

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

Each mandate holder 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 DFC Ltd 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 actually expects to receive.

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

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

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

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

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

## Notes to the Financial Statements continued

### Forward looking information

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

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

The impact of movements in these macro-economic factors are assessed on a 12-month basis from the balance sheet date (31 December). Due to the severe impact of COVID-19 on these macro-economic factors in 2020, the Group has assessed these impacts within the Strategic Report and post balance sheet events (note 34) as the conditions were not present within the UK economy as at 31 December 2019.

### Maximum exposure to credit risk:

	2019 £'000	2018 £'000
Cash and equivalents	14,122	7,556
Loans and advances to customers	207,636	113,795
Trade and other receivables	1,440	699
	<b>223,198</b>	<b>122,050</b>

### Collateral held as security:

	2019 £'000	2018 £'000
<b>Fully collateralised</b>		
Loan-to-value* ratio:		
Less than 50%	5,800	2,129
51% to 70%	12,793	5,969
71% to 80%	55,059	35,946
81% to 90%	41,446	30,026
91% to 100%	93,507	39,937
	<b>208,605</b>	<b>114,007</b>
<b>Partially collateralised</b>		
Collateral value relating to loans over 100% loan-to-value	<b>255</b>	-
<b>Unsecured lending</b>	<b>589</b>	<b>106</b>

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

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

The assets are generally in the counterparty’s possession, but this is controlled and managed by the asset audit process. The audit process checks on a periodic basis that the asset is in the counterparty’s possession and has not been sold out of trust or is otherwise not in the counterparty’s control. The frequency of the audits is 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 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
<b>Gross carrying amount</b>	<b>201,993</b>	<b>4,585</b>	<b>2,871</b>	<b>209,449</b>
Loss allowance	(340)	(41)	(1,028)	(1,409)
<b>Carrying amount</b>	<b>201,653</b>	<b>4,544</b>	<b>1,843</b>	<b>208,040</b>

31 December 2018 Credit rating	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2018 Total £'000
Above average (Risk rating 1-2)	54,987	-	-	54,987
Average (Risk rating 3-5)	28,998	14,915	-	43,914
Below average (Risk rating 6+)	7,374	7,705	134	15,213
<b>Gross carrying amount</b>	<b>91,359</b>	<b>22,620</b>	<b>134</b>	<b>114,113</b>
Loss allowance	(88)	(32)	(49)	(169)
<b>Carrying amount</b>	<b>91,271</b>	<b>22,588</b>	<b>85</b>	<b>113,944</b>

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



## Notes to the Financial Statements continued

### Analysis of credit quality of trade receivables:

	2019 £'000	2018 £'000
<b>Status at balance sheet date</b>		
Not past due, nor impaired	109	26
Past due but not impaired	36	53
Impaired	103	11
<b>Total gross carrying amount</b>	<b>248</b>	<b>90</b>
Loss allowance	(107)	(11)
<b>Carrying amount</b>	<b>141</b>	<b>79</b>

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 £132,000 at 31 December 2019 (31 December 2018: £nil).

### Liquidity risk

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

### Liquidity risk management

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

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

### Liquidity stress testing

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

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

### Maturity analysis for financial assets

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

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	-
	<b>231,192</b>	<b>233,118</b>	<b>69,082</b>	<b>74,350</b>	<b>81,784</b>	<b>7,902</b>	<b>-</b>

31 December 2018 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	7,556	7,556	7,556	-	-	-	-
Loans and advances	113,795	114,113	23,152	34,208	51,941	4,812	-
Debt securities	4,994	5,000	-	5,000	-	-	-
Trade receivables	79	90	27	45	18	-	-
Other receivables	1,190	1,190	100	76	-	1,014	-
	<b>127,613</b>	<b>127,949</b>	<b>30,835</b>	<b>39,328</b>	<b>51,959</b>	<b>5,826</b>	<b>-</b>

### Maturity analysis for financial liabilities

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

31 December 2019 Financial liabilities	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
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	-	-	-
	<b>169,161</b>	<b>178,750</b>	<b>4,069</b>	<b>2,794</b>	<b>171,253</b>	<b>634</b>	<b>-</b>
<b>Loan commitments</b>	<b>-</b>	<b>4,656</b>	<b>4,656</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements continued

31 December 2018 Financial liabilities	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
Preference shares	3,111	4,469	-	-	-	4,469	-
Other financial liabilities	69,334	72,378	246	739	71,393	-	-
Trade payables	524	524	524	-	-	-	-
Other payables	1,376	1,376	1,376	-	-	-	-
	<b>74,345</b>	<b>78,747</b>	<b>2,146</b>	<b>739</b>	<b>71,393</b>	<b>4,469</b>	<b>-</b>
<b>Loan commitments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Market risk

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

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

## Interest rate risk management

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

The Group's borrowings are at both fixed rates of interest and LIBOR based. These borrowings fund existing loans and advances to customers at fixed rate. To help mitigate interest rate risk the Group may increase asset pricing accordingly on new assets funded at its discretion. Additionally, the limited asset average loan duration helps mitigate this interest rate risk.

For interest rate sensitivity analysis, the Group considers a parallel 200 basis points ("bps") movement to be appropriate for scenario testing based on the current economic outlook and industry expectations.

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

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

	2019 £'000	2018 £'000
<b>Change in interest rate (basis points)</b>		
Sensitivity of EVE +200bps	(853)	(498)
Sensitivity of EVE -200bps	875	519

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:

	2019 £'000	2018 £'000
<b>Change in interest rate (basis points)</b>		
Sensitivity of profit +200bps	1,625	588
Sensitivity of profit -200bps (floored at 0%)	227	(221)

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.

## 31. Earnings per share

Number of shares	2019 No.	2018 No.
At period end	106,641,926	17,240,000
Basic and diluted - weighted average*	75,552,320	13,434,208

Earnings attributable to ordinary shareholders	2019 £'000	2018 £'000
Loss after tax attributable to the shareholders	(13,504)	(7,265)
Adjusted loss**	(11,379)	(7,265)

Earnings per share	2019 pence	2018 pence
Basic and diluted	(18)	(54)
Adjusted**	(15)	(54)
Illustrative***	(66)	(42)

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

The number of shares for each period shown has been calculated based on a time-weighting approach. This takes into consideration that on the 9<sup>th</sup> May 2019, Distribution Finance Capital Limited effectively demerged from the TruFin Group at which time it had 23,943,547 ordinary class shares. Following the initial public offering, Distribution Finance Capital Holdings plc, the ultimate controlling party of the Group, listed 106,641,926 ordinary shares on the Alternative Investment Market (AIM). In May 2019 the Group executed two share transactions (see note 25) which were directly related to the IPO. Prior to these transactions, DFC Ltd had 17,240,000 ordinary shares.

\*\*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 11 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:

	2019 £'000	2018 £'000
Loss after tax attributable to the shareholders	(13,504)	(7,265)
Less: exceptional items	2,125	-
<b>Adjusted loss</b>	<b>(11,379)</b>	<b>(7,265)</b>

\*\*\*The Directors have elected to show an additional APM, illustrative earnings per share, which uses the adjusted loss and the weighted average of basic shares prior to the IPO and £25 million equity injection, at which time the Group had 17,240,000 ordinary shares. The Directors have elected to display this additional metric given the Group has not significantly changed in terms of management structure, strategy and underlying revenue/cost base as a result of the transaction. Therefore, the Directors feel this provides a useful comparative to prior period performance.

## 32. Operating lease arrangements

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



## Notes to the Financial Statements continued

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

The Group has adopted the new IFRS 16 Leases accounting standard as at 1 January 2019 in these consolidated financial statements. As such, all operating lease commitments are detailed within note 27 of these financial statements and as such are not populated in the below table for the financial year ended 31 December 2019.

The Group as lessee:

	2019 £'000	2018 £'000
Lease payments under operating leases recognised as an expense in the year	-	278
	-	<b>278</b>

The future minimum lease payments under non-cancellable leases are as follows:

	2019 £'000	2018 £'000
Within one year	-	226
In the second to fifth years inclusive	-	489
After five years	-	-
Total future lease payments committed	-	<b>715</b>

## 33. Related party disclosures

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

Counterparty	Description of transaction	Amounts of transactions
TruFin	On 7 <sup>th</sup> May 2019, TruFin Holdings Limited injected £25 million of equity into DFC Ltd prior to the demerger from the TruFin Group.	6,530,303 A class ordinary shares in DFC Ltd were granted with a nominal value of £0.001 each at a total consideration of £25 million.
TruFin	DFC Ltd held a management service agreement with TruFin plc which included a management charge of £18,750 per quarter. This agreement was terminated on 7 <sup>th</sup> May 2019.	During the year ended 31 December 2019, DFC Ltd made payments of £26,400 (exc. VAT) to TruFin plc in relation to management charges.
TruFin	As part of the transaction as outlined in note 1 of these consolidated financial statements, TruFin incurred significant costs in relation to the sale and subsequent IPO. It was agreed prior to the IPO that these costs were to be borne by the Group.	During the six-month period ending 30 June 2019, the Group incurred charges of £700,000 (exc. VAT) to TruFin plc in relation to the recharge of these transaction costs.
TruFin	As detailed in note 28, DFC Ltd consolidated and increased funding from TruFin Holdings during the year ended 31 December 2019.	In April 2019 DFC Ltd received funding from TruFin Holdings of £5 million and £3.8m of preference shares were extinguished with the proceeds used to create a new loan from TruFin Holdings. This together with the existing £10 million loan increased the total loan with TruFin Holdings to £18.8 million. As at 31 December 2019, DFC Ltd has repaid £5million in principal and repaid £1.05 million in accrued interest. See note 28 for further details.
TruFin	Interest expense recognised within the period in accordance with the signed loan agreements with the TruFin Group.	In the year ended 31 December 2019, the Group recorded interest expense in relation to the loan agreements held with TruFin of £813,000. At 31 December 2019, the Group had interest payable of £58,000.
Director	Director share transactions	<p>During the year ended 31 December 2019 Chris Dailey was awarded 84,121 A ordinary shares in DFC Ltd. Immediately prior to the admission of DFCH plc to the Alternative Investment Market Chris Dailey held 433,121 A ordinary shares and 290,000 B ordinary shares in DFC Ltd these were exchanged for 3,220,701 ordinary shares in DFCH plc. In addition Chris Dailey purchased 55,555 DFCH plc ordinary shares upon placing.</p> <p>During the year ended 31 December 2019 Gavin Morris was awarded 5,266 A ordinary shares in DFC Ltd. Immediately prior to the admission of DFCH plc to the Alternative Investment Market Gavin Morris held 5,266 A ordinary shares and 40,000 C ordinary shares in DFC Ltd these were exchanged for 201,609 ordinary shares in DFCH plc. In addition, Gavin Morris purchased 27,777 DFCH plc shares upon placing.</p> <p>Henry Kenner and James Van den Bergh received 1,484,947 and 1,391,737 ordinary shares in DFCH plc on Admission as a result of shares held in TruFin or awards in respect of such shares. In addition, James Van den Bergh purchased 555,555 DFCH plc ordinary shares upon placing.</p> <p>On placing of DFCH plc John Baines and Carole Machell acquired 222,222 and 83,333 ordinary shares in DFCH plc respectively</p>

## Notes to the Financial Statements continued

Director	Loan agreements held with Directors of the Group.	<p>During the year ended 31 December 2019 loans were provided to Chris Dailey and Gavin Morris to fund the tax liability arising as a result of their award of 84,121 and 5,266 A ordinary shares in DFC Ltd respectively.</p> <p>These loans in respect of Chris Dailey and Gavin Morris amounted to £228,085 and £14,278 respectively.</p> <p>Total loans due from Gavin Morris as at 31 December 2019 were £33,501.</p>
Director	Issuance of redeemable non-voting preference shares.	On 5 April 2019, to meet the minimum share capital requirements for public companies the Company issued 50,000 redeemable non-voting preference shares of £1.00 each to James Van den Bergh.
Key Management Personnel	Key Management Personnel (excluding Directors) share transactions and loan agreements	<p>During the year ended 31 December 2019 Key Management Personnel (excluding Directors) were awarded 67,797 A ordinary shares in DFC Ltd. Immediately prior to the admission of DFCH plc to the Alternative Investment Market Key Management Personnel (excluding Directors) held 352,797 A ordinary shares, 140,000 B ordinary shares and 90,000 C ordinary shares in DFC Ltd these were exchanged for 2,595,713 ordinary shares in DFCH plc.</p> <p>During the year ended 31 December 2019 loans were advanced to Key Management Personnel (excluding Directors) of £212,000 in respect of funding the tax liabilities arising from these share transactions. Total loans due from Key Management Personnel (excluding Directors) as at 31 December 2019 were £297,000.</p>

## 34. Post balance sheet events

### COVID-19

The outbreak of COVID-19 and its impact on the UK economy is considered to be a non-adjusting event as, at the balance sheet date, the scale of the outbreak remained limited and therefore there was not sufficient information available to have caused changes to the assumptions applied to the financial position as at 31 December 2019. The full impact of the outbreak is currently uncertain and therefore the financial impact on the Group, which will depend upon the extent of the economic downturn cannot be reliably estimated.

### Directorate changes

On 9<sup>th</sup> March 2020 Carl D'Amassa joined the Group as Chief Executive Officer and was appointed as a Director of DFCH plc and DFC Ltd.

On 12<sup>th</sup> May 2020 Stephen Greene and Haakon Stenrød were appointed as Non-Executive Directors of DFCH plc by virtue of the Company shareholders (Arrowgrass Masterfund Ltd and Watrium AS, respectively) exercising their rights to appoint Directors under their Relationship Agreements. Also, on 12<sup>th</sup> May 2020 Henry Kenner and James Van den Bergh stepped down from the Boards of DFCH plc and DFC Ltd with immediate effect. On 10<sup>th</sup> June Stephen Greene and Haakon Stenrød were appointed Directors of DFC Ltd.

### Wholesale funding

As set out in note 28, the Group was granted a waiver in December 2019 in respect of its wholesale funding facility of an early amortisation event triggered by the departure of the CEO. This waiver was subject to certain terms and conditions, and continued review of the facilities during the first quarter of 2020. The Group had constructive discussions with the wholesale lenders over the first quarter of 2020 with a view to agreeing a permanent amendment to the facilities and therefore remove the need for further waivers going forward. However, in the light of the evolving COVID-19 crisis and in particular the need for the Group's future facilities to respond flexibly to the emerging market environment and customer needs the Group announced on 1<sup>st</sup> April 2020 the lenders had agreed to an extension of the current waiver whilst discussions over a further waiver period continued. On 11<sup>th</sup> May 2020 the Group announced that specific terms and covenants had been agreed with the lenders to extend the period of waiver to 30<sup>th</sup> June 2020, with the Senior facility reduced to £110m and the Senior Mezzanine facility to £32m. On 25<sup>th</sup> June 2020 the Group announced that a further extension of the existing temporary waiver to the end of

September 2020 had been agreed in line with terms previously agreed. The Group expects the lenders to further review their position in mid-August by which time the Group will have greater clarity on its banking licence application, application to participate in the British Business Bank's Enable Funding scheme and the impact of the gradual easing of COVID-19 restrictions on its customers.

If the wholesale lenders decide not to extend the early amortisation waiver beyond 30<sup>th</sup> September 2020, or following the mid-August review, they have the option to put the facility into early amortisation. The effect of this is that they would no longer fund new loan originations and as the existing wholesale funded portfolio runs down all cash receipts are used to first repay the Senior Lender until fully repaid, subsequent cash receipts are then used to repay the Senior Mezzanine Lender until they are fully repaid. It is therefore only when the Senior and Senior Mezzanine funders are fully repaid in this early amortisation scenario that any cash proceeds from dealer repayments of this wholesale funded portfolio are available to the Group.

On 28<sup>th</sup> April 2020 the Group announced that it had made an application to the British Business Bank to participate in its Enable Funding Scheme, which provides wholesale funding to SME lenders. This application is progressing.

### Change in significant shareholding

In accordance with the forfeiture provisions set out in the Share Exchange Deed that was entered into in connection with the IPO of the Company, on 4 February 2020, 2,256,164 ordinary shares of one pence each ("Ordinary Shares") held by Chris Dailey were transferred to the Distribution Finance Capital Employee Benefit Trust for an aggregate consideration of £22,561.64.

### Registered office change

On 25<sup>th</sup> June 2020 the Company changed its registered office from 12 Groveland Court, London, EC4M 9EH to 196 Deansgate, Manchester, M3 3WF.



## The Company Statement of Financial Position

	Note	As at 31 December 2019 £'000
<b>Assets</b>		
Cash and cash equivalents	5	20
Investment in subsidiaries	7	95,977
Trade and other receivables	6	617
<b>Total Assets</b>		<b>96,614</b>
<b>Liabilities</b>		
Amounts payable to Group undertakings	8	4,269
Trade and other payables	9	194
Financial liabilities	10	50
Other Provisions	11	337
<b>Total Liabilities</b>		<b>4,850</b>
<b>Equity</b>		
Issued share capital	12	1,066
Merger relief	12	94,911
Retained (loss)		(4,213)
<b>Total Equity</b>		<b>91,764</b>
<b>Total Equity and Liabilities</b>		<b>96,614</b>

The notes on pages 117 to 122 are an integral part of these financial statements.

Distribution Finance Capital Holdings plc recorded loss after taxation for the year ended 31 December 2019 of £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 25 June 2020. They were signed on its behalf by:

**Carl D'Ammassa**  
Director  
25 June 2020

Registered number: 11911574

## The Company Statement of Cash Flow

	Note	2019 £'000
<b>Cash flows from operating activities:</b>		
Total comprehensive loss before taxation	4	(3,681)
<b>Adjustments for:</b>		
Movement in other provisions	11	337
Adjustments for non-cash items within the income statement*		(533)
Operating cash flows before movements in working capital		(196)
Increase in trade and other receivables		(566)
Increase in trade and other payables		194
<b>Net cash used in operating activities</b>		<b>(4,249)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from intercompany loan	8	4,269
<b>Net cash from financing activities</b>		<b>4,269</b>
<b>Net increase in cash and cash equivalents</b>		<b>20</b>
Cash and cash equivalents at start of the year		-
<b>Cash and cash equivalents at end of the period</b>	<b>4</b>	<b>20</b>

\*The Company capitalised £533,000 of transactions costs relating to the initial public offering of the Company through retained earnings in the period.

## The Company Statement of Changes in Equity

	Issued share capital £'000	Merger relief £'000	Retained (loss) / earnings £'000	Total £'000
<b>Balance at 28 March 2019 - at incorporation</b>	-	-	-	-
(Loss) after taxation	-	-	(3,681)	(3,681)
Consideration from initial public offering	1,066	94,911	(532)	95,445
<b>Balance at 31 December 2019</b>	<b>1,066</b>	<b>94,911</b>	<b>(4,213)</b>	<b>91,764</b>

## 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") and as adopted by the European Union ("EU").

The Company was incorporated on 28 March 2019 and, therefore, the accounting period of the Company financial statements is from 28 March 2019 to 31 December 2019. As a result, there are no prior period comparatives presented in these financial statements.

During the year ended 31 December 2019, as detailed in note 1 of the consolidated financial statements, the Group undertook a significant reorganisation during the year. On 8<sup>th</sup> May 2019, DFCH plc became the controlling party of the DFC Ltd and TruFin Holdings Limited acquired the controlling interest in DFCH plc. On the 9<sup>th</sup> May 2019, TruFin Holdings Limited sold a significant portion of its ownership in DFCH plc resulting in no controlling interest in the Company.

#### 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 2019, 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

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



## Notes to the Company Financial Statements continued

### 5. Notes to the cash flow statement

#### Cash and cash equivalents:

	2019 £'000
Cash held at bank	20
	<b>20</b>

#### 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 2019.

### 6. Trade and other receivables

	2019 £'000
Other debtors	50
Employee loans	461
Social security and other taxes	34
Prepayments	72
	<b>617</b>

### 7. Investment in subsidiaries

	2019 £'000
<b>Balance at incorporation</b>	-
Consideration from initial public offering	95,977
<b>Balance at 31 December 2019</b>	<b>95,977</b>

See note 25 of the consolidated financial statements for further details regarding the group reorganisation transaction on May 2019 which resulted in DFC Ltd becoming a wholly owned subsidiary of DFCH plc.

### 8. Amounts payable to Group undertakings

	2019 £'000
Amounts payable to Distribution Finance Capital Ltd	4,269
	<b>4,269</b>

### 9. Trade and other payables

	2019 £'000
Trade payables	1
Accruals	193
	<b>194</b>

### 10. Financial liabilities

	2019 £'000
Preference shares	50
	<b>50</b>

#### Reconciliation of movements in financial liabilities:

	Preference Shares £'000
<b>Balance at incorporation</b>	-
<b>Non-cash changes:</b>	
Incorporating shareholder*	50
<b>Balance at 31 December 2019</b>	<b>50</b>

\*On 3rd April 2019, a Director of the Company was allocated 50,000 redeemable non-voting preference shares of £1.00 each for an aggregate subscription price of £50,000. 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.

### 11. Other provisions

	At 31 December 2018 £'000	Additions £'000	Utilisation of provision £'000	Unused amounts reversed £'000	At 31 December 2019 £'000
Severance payments	-	377	(40)	-	337
	-	<b>377</b>	<b>(40)</b>	-	<b>337</b>

Further details regarding the severance payments onerous provision can be found in note 12 of the consolidated financial statements.

## Notes to the Company Financial Statements continued

### 12. Share capital

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

	Date	No. of shares #	Issue price £	Share capital £'000	Merger relief £'000	Total £'000
<b>At incorporation</b>	28-Mar-19	1	0.01	-	-	-
Initial public offering	09-May-19	106,641,926	0.90	1,066	94,911	95,978
<b>Balance at 31 December 2019</b>		<b>106,641,927</b>		<b>1,066</b>	<b>94,911</b>	<b>95,978</b>

Further details of the share transaction during the year ended 31 December 2019 can be found in note 25 of the consolidated financial statements. The share capital and merger relief account as at 31 December 2019 for the Company are consistent with that of the Group, however, note that in the consolidated financial statements the Group has applied FRS 102 Merger Accounting principles as detailed in note 2.15 of the consolidated financial statements.

### 13. Financial instruments

The Group monitors and manages risk management at a group-level and, therefore, the Risk Management Framework stipulated in note 30 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 30 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
<b>31 December 2019 Financial assets not measured at fair value</b>					
Trade receivables	-	-	-	-	-
Other receivables	546	546	-	-	546
Cash and equivalents	20	20	20	-	-
	<b>566</b>	<b>566</b>	<b>20</b>	<b>-</b>	<b>546</b>

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

Maximum exposure to credit risk:

	2019 £'000
Cash and equivalents	20
Trade and other receivables	546
	<b>566</b>

#### 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
<b>31 December 2019 Financial assets</b>							
Cash and equivalents	20	20	20	-	-	-	-
Trade receivables	-	-	-	-	-	-	-
Other receivables	546	546	-	-	34	512	-
	<b>566</b>	<b>566</b>	<b>20</b>	<b>-</b>	<b>34</b>	<b>512</b>	<b>-</b>

#### Maturity analysis for financial liabilities

The following maturity analysis is based on **contractual** 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
<b>31 December 2019 Financial liabilities</b>							
Preference shares	50	50	-	-	-	50	-
Amounts payable to Group undertakings	4,269	4,269	-	-	-	4,269	-
Trade payables	1	1	1	-	-	-	-
	<b>4,320</b>	<b>4,320</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>4,319</b>	<b>-</b>

### 14. Post balance sheet events

#### COVID-19

The outbreak of COVID-19 and its impact on the UK economy is considered to be a non-adjusting event as, at the balance sheet date, the scale of the outbreak remained limited and therefore there was not sufficient information available to have caused changes to the assumptions applied to the financial position as at 31 December 2019. The full impact of the outbreak is currently uncertain and therefore the financial impact on the Company, which will depend upon the extent of the economic downturn cannot be reliably estimated.

The impact of COVID-19 on DFCH plc will be the effect on its investment in DFC Limited. DFC Limited has been impacted by the effect of COVID-19 on its dealers with the majority of them being closed during the lockdown and the ongoing impact on them is uncertain.



## Notes to the Company Financial Statements continued

### Directorate changes

On 9<sup>th</sup> March 2020 Carl D'Ammassa joined the Group as Chief Executive Officer and was appointed as a Director of DFCH plc and DFC Ltd.

On 12<sup>th</sup> May 2020 Stephen Greene and Haakon Stenrød were appointed Non-Executive Directors of DFCH plc and DFC Ltd by virtue of the Company shareholders (Arrowgrass Masterfund Ltd and Watrium AS, respectively) exercising their rights to appoint Directors under their Relationship Agreements. Also, on 12<sup>th</sup> May 2020 Henry Kenner and James Van den Bergh stepped down from the Board with immediate effect.

### Change in significant shareholding

In accordance with the forfeiture provisions set out in the Share Exchange Deed that was entered into in connection with the IPO of the Company, on 4 February 2020, 2,256,164 ordinary shares of one pence each ("Ordinary Shares") held by Chris Dailey were transferred to the Distribution Finance Capital Employee Benefit Trust for an aggregate consideration of £22,561.64.

### Registered office change

On 25<sup>th</sup> June 2020 the Company changed its registered office from 12 Groveland Court, London, EC4M 9EH to 196 Deansgate, Manchester, M3 3WF.











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).