DF Capital

Distribution Finance Capital Holdings plc

Interim Report 2024

For the six months ended
30 June 2024

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Contents

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

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

Continuing to build scale and enhance investor returns

We are delighted to report another period of strong profitability and continued momentum, delivering pre-tax profit of £9.2m for the first half of the year including £1.7m recovery on a previously impaired loan, which is ahead of expectations and up 187% on the same period last year (H1 2023: £3.2m). We've continued to scale the bank whilst increasing returns and have carefully managed growth despite the challenges of the macro-economic and higher interest rate environment.

During the period, we originated record levels of new loans, increasing the loan book to £603m (30 June 2023: £519m; 31 December 2023 £581m), whilst delivering net interest margin of 7.8% (H1 2023: 7.5%) significantly above our 6% target. Accordingly, earnings per share in the period increased to 3.8p (H1 2023: 1.0p) and the Group's tangible net asset value per share reached 59.6p, up 4 pence per share since year end (30 June 2023: 54.7p; 31 December 2023: 55.6p).

The strength of financial performance and our expectations for the balance of the year reiterate the Board's belief that the Group's strategy is effective, that our products and services resonate with customers and accordingly we can continue to profitably scale the bank, moving at pace on our journey to deliver a mid-to-high teens return on capital over the medium term.

Growing our market share with record loan origination

The Group has continued to see strong momentum originating new loans of £710m during the six-month period to 30 June 2024, up 17% on the equivalent period in 2023 (H1 2023: £607m). We have increased our market share across a number of sectors and now support 90 manufacturer partners (30 June 2023: 86; 31 December 2023: 89) and 1,250 dealers (30 June 2023: 1,152; 31 December 2023: 1,182) having added 165 new dealers in the period. Aggregate dealer loan facilities at the end of the period totalled £1,088m, up 17% on the prior year (30 June 2023: £926m) and up 6% on the end of FY23 (31 December 2023: £1,030m).

The Group's loan book ended the period at £603m up 16% on the equivalent period in the prior year (30 June 2023: £519m) and in line with seasonal expectations. New loan origination has undoubtedly been strong throughout the period, however the Group has seen a normalisation of the seasonality in loan repayments (i.e. an acceleration of dealer sales during the period from March to September), a first since the onset of the global pandemic. It is somewhat reassuring to finally see this normalisation unfold, enabling us to better forecast seasonal factors that impact the demand for our lending products in certain sectors at particular points of the year. The Group's loan book closed August 2024 broadly flat at £593m, in line with seasonal expectations for the summer months of low manufacturer product and heightened dealer sales.

Average stock days, which measures the average age of loans outstanding, remains well within sector tolerances, extending marginally on a portfolio basis to 149 days at the period end (31 December 2023: 148 days; 30 June 2023: 131 days).

Portfolio By Sector

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

	30 June 2024		30 June 2023		31 December 2023	
	£million	%	£million	%	£million	%
Leisure:						
Lodges and holiday homes	117.8	19.5%	157.1	30.3%	147.8	25.5%
Motorhomes and caravans	163.4	27.1%	97.1	18.7 %	131.0	22.6%
Marine	62.8	10.4%	48.1	9.3%	55.5	9.6%
Motorsport	33.6	5.6%	28.8	5.5%	27.2	4.7%
Automotive	21.6	3.6%	4.1	0.8%	8.3	1.4%
	399.2	**66.2%**	**335.2**	**64.5%**	**369.8**	**63.7%**
Commercial:						
Transport	104.3	17.3%	112.1	21.6%	130.3	22.4%
Industrial equipment	32.8	5.4%	31.5	6.1%	35.7	6.1%
Agricultural equipment	26.2	4.4%	25.6	4.9%	26.7	4.6%
Other serialised assets	3.5	0.6%	-	0.0%	-	0.0%
	166.8	**27.7%**	**169.2**	**32.6%**	**192.7**	**33.2%**
Wholesale and receivables funding	**36.6**	**6.1%**	**14.9**	**2.9%**	**18.2**	**3.1%**
Total loan book principal[1]	**602.6**	**100%**	**519.3**	**100%**	**580.7**	**100%**

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

Motorhome and caravan new loan origination has been strong during the period, leading to a 25% growth in the loan book in this sector, predominantly from existing dealers, as at 30 June 2024 compared to 31 December 2023. Whilst this is positive, the pace of loan book growth in this sector has been somewhat slowed by strong dealer sales and the associated loan repayments given we are repaid in full once an individual asset is sold. The automotive sector has also grown strongly in this period by over 150% from a relatively low base at the end of 2023, driven entirely by increased dealers and facility utilisation. Our revolving inventory finance facility, "Flex", has proven popular with automotive dealers with faster moving asset sales cycles.

Lending in the lodges and holiday home sector reduced as expected, as dealers and park operators held less stock as these large volume, discretionary purchases have been impacted by higher interest rates. Park operators have seen continued demand for holiday rental units and some dealers have utilised our rental lending product, to allow them to generate income from unsold units, whilst also making capital repayments against our loans. The fallout from RoyaleLife's failure last year continues to have some structural impact across the market with a number of new operators of RoyaleLife's former parks continuing in their efforts to stabilise operations, which has seen subdued demand for new units from these parks.

Across the transport sector, demand from end-users has been muted. This has driven competitive tension across manufacturers and a higher degree of product discounting. Dealers in this market have been carefully managing their inventory levels to better match demand, a trend that has continued over the summer months, but expected to improve during September in line with the vehicle registration plate change.

Whilst very early in its evolution, we have enhanced our product offering to fund serialised faster moving higher volume assets. We expect this to be an area of significant growth for us as we look beyond 2024, supporting manufacturers, distributors and dealers in the renewables, technology and telecoms markets as an example.

Our wholesale and receivables funding activities have continued, growing from £18.2m at 31 December 2023 to £36.6m at 30 June 2024. Working with partners (i.e. lending to lenders) allows us to build market intelligence on the dynamics of lending products that we have future ambitions to launch ourselves. Additionally, we provided short term receivables financing and invoice discounting to existing dealers, manufacturers and distributors. We achieve strong risk adjusted returns from these product sets, but do not expect lending in these segments to exceed more than 10-15% of the Group's entire loan book.

Summarised Statement of Comprehensive Income

	30 June 2024 6-month £'000	30 June 2023 6-month £'000	31 December 2023 12-month £'000
Gross revenues[1]	37,889	27,259	60,350
Interest expense	(15,383)	(9,126)	(22,336)
Net income[2]	**22,506**	**18,133**	**38,014**
Operating expenses	(13,226)	(11,148)	(21,843)
Impairment charges	(106)	(3,786)	(11,598)
Profit before taxation	**9,174**	**3,199**	**4,573**
Taxation	(2,443)	(938)	(1,418)
Profit after taxation	**6,731**	**2,261**	**3,155**
Other comprehensive income/(loss)	74	(53)	183
Total comprehensive income for the period	**6,805**	**2,208**	**3,338**
Basic earnings per share	**3.8p**	**1.0p**	**1.8p**

[1] *Sum of interest and similar income, fee income less fee expenses, net gains/(losses) from derivatives measured at fair value through profit or loss and other operating income*
[2] *Gross revenues less interest and similar expenses*

Summarised Statement of Financial Position

	30 June 2024 £'000	30 June 2023 £'000	31 December 2023 £'000
Cash and balances at central banks	86,036	46,642	89,552
Loans and advances to banks	3,496	5,067	3,475
Investment securities	6,175	24,528	14,839
Loans and advances to customers	596,771	513,787	568,044
Taxation asset	5,265	7,574	7,166
Other assets	8,462	5,639	8,862
Total assets	**706,205**	**603,237**	**691,938**
Customer deposits	579,012	498,357	574,622
Financial liabilities	1,127	1,317	1,255
Subordinated liabilities	10,225	-	10,221
Taxation liabilities	670	-	73
Other liabilities	7,598	4,723	5,353
Total liabilities	**598,632**	**504,397**	**591,524**
Total equity	**107,573**	**98,840**	**100,414**
Tangible net asset value per share (pence)	**59.6**	**54.7**	**55.6**

Ongoing strong Net Interest Margin

We have continued to see the positive impact of UK base rate movements on the Group's Net Interest Margin ("NIM"), which is gross yield less interest expense. This increased during the period to 7.8% (H1 2023: 7.5%), being well ahead of our NIM target of 6%.

Gross yield increased by 14% to 12.1% (H1 2023: 10.6%), as the increasing base rate has been priced into newly originated loans. This coupled with a higher average loan book through the period saw gross revenues, which predominantly comprise interest and similar income, increase by 39% to £37.9m (H1 2023: £27.3m).

In line with the base rate increases over the life of the deposit book, the average cost of retail deposits increased during the period to 5.1% (H1 2023: 3.7%). As the Group's deposit book is predominantly an array of fixed rate tenors, it takes time for increasing deposit rates to fully flow through to the deposit book as a whole, only impacting as older maturing deposits are replaced by newer deposits at higher rates. Accordingly, the loan book has repriced more quickly than the deposit book given its shorter average tenor, which has driven much of the favourable NIM expansion. We expect ongoing favourability in NIM in the near-term, however it is less likely to be as significant over the medium term; unwinding as the base rate reduces and moving more towards our 6% target over time.

Continuing to deliver operational efficiencies

As we continue to scale the bank, we unlock latent operational leverage. During the period, we have delivered a reduction in the cost to income ratio to 59% (H1 2023: 61%). Whilst our platform is already highly digitised, we continue to recognise the importance of further automation and the need for us to leverage technology further to provide continuous enhancements to our service proposition as a competitive differentiator. These investments in robotic process automation and character-recognition technologies, as well as deploying new market leading technology solutions have enabled us to provide new products to our customers. The people resource we require over the near term to scale our existing lending and retail deposit propositions are substantively embedded in the business already, allowing us to unlock further operational leverage on the existing loan book as we continue to grow our lending. We have commenced the organic build of and investment in a hire purchase lending capability, which will continue through the balance of this year, with the launch of associated new lending products expected during 2025.

Operating expenses in the period reached £13.2m, being an increase of 19% (H1 2023: £11.1m) however total operating income increased by 24% over the same period being £22.5m in H1 2024 (H1 2023: £18.1m), thus demonstrating the positive widening of the gap between our costs and our income.

Strong credit performance

Despite the challenging macro-economic and higher interest rate environment, the Group's overdue accounts have continued to perform well and ahead of expectations through the period. 20 dealers (H1 2023: 29), including 10 cases in legal recovery, had arrears at least one day past due, representing c1.6% (H1 2023: c 2.5%) of the Group's dealer base. The Group's total arrears balance represented c0.5% (H1 2023: 2.5%) of its entire loan book. This very low level of arrears, which is better than expectations, has continued over the summer months, with total arrears remaining constant at c0.5% of the Group's entire loan book and 23 dealers in arrears or in legal recovery at the end of August 2024.

This strong credit performance continues to reflect the high quality of our dealer base and our capability to remediate defaults through product redistribution via our customer network or the sale of our secured assets to other parties.

The following tables analyse the Group's arrears balance (principal, fees and interest) and total principal outstanding on the respective loan receivable of the lending portfolio at the respective reporting dates.

	30 June 2024 £'000	30 June 2023 £'000	31 December 2023 £'000
Arrears - principal repayment, fees and interest:			
1 - 30 days past due	427	475	696
31 - 60 days past due	572	1,226	265
61 - 90 days past due	474	219	946
91 + days past due	1,519	11,155	12,102
	2,992	**13,075**	**14,009**
Total % of loan book	**0.5%**	**2.5%**	**2.4%**
Associated principal balance:			
1 - 30 days past due	2,587	1,400	1,253
31 - 60 days past due	1,200	1,385	717
61 - 90 days past due	439	-	1,900
91 + days past due	2,294	13,006	12,821
	6,520	**15,791**	**16,691**
Total % of loan book	**1.1%**	**3.0%**	**2.9%**

Net impairment losses for the six months ended 30 June 2024 which included a £1.7m recovery on a previously impaired loan, were £0.1m (H1 2023: £3.8m), representing a cost of risk for the six months ended 30 June 2024 of 0.04% (H1 2023: 1.55%).

As at 31 December 2023 an almost full provision of c£10m had been made in respect of RoyaleLife and associated companies ("RoyaleLife") equivalent to the customers entire outstanding unrecoverable balance at that time. Since year-end we have proactively looked to make the fullest recovery possible and have recovered assets and cash of £1.7m, with this write back reducing impairment losses in the period accordingly. Excluding this RoyaleLife recovery, the cost of risk would have been 0.61% for the period (H1 2023: 0.41% excluding Royale Life impairments made in this period), well below our through-the-cycle expectations of 1%. Additionally, in relation to RoyaleLife, the Group has agreed a further £3m settlement under personal guarantees with a related party of the guarantor. This settlement is subject to the sale of property and proceeds are anticipated to be received in the financial year ending 31 December 2025.

Security Position

	30 June 2024 %	30 June 2023 %	31 December 2023 %
Loan to wholesale value[1]	83%	88%	85%

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

In our core inventory finance product, the Group's lending relative to its security position remains strong with a Loan to Wholesale Value ('LTV') of 83% (30 June 2023: 88% and 31 December 2023: 85%). This reduction in LTV is predominantly due to a slowdown in stock turn with an increase in the associated monthly capital repayments. We do not advance funds measured against retail prices, which typically represent a mark-up of approximately 20% on the wholesale invoice price.

Award winning deposit raising capability

We continue to operate an effective and well-diversified deposit raising capability that resonates with our customers. At 30 June 2024 our already strong customer satisfaction score, as measured by feefo, increased to 4.8 (30 June 2023: 4.7; 31 December 2023: 4.7). We also received feefo's Platinum Trusted Service Award in January 2024.

£233m of deposits were raised or retained on maturity during the period (H1 2023: £168m), at an average interest rate of 5.2% (H1 2023: 4.4%). We continue to focus on existing customer retention, with c.60% of maturing deposits retained through loyalty products and a seamless online product change process. As at 30 June 2024, we had retail deposits totalling £579m (30 June 2023: £498m; 31 December 2022: £575m) from over 14,600 accounts.

We have now also launched our first business savings account. Alongside our existing retail deposit capability this product diversification increases options as to how we fund our lending activities across a wider depositor base and price point.

Well capitalised balance sheet supporting growth ambitions

The Group remains well-capitalised to support its near-term growth ambitions. As at 30 June 2023 the Group's equity stood at £107.6m (30 June 2023: £98.8m; 31 December 2023: £100.4m).

This level of equity capital, alongside the use of capital efficient instruments available to the Group as well as on-going retained earnings, enables us to reach a loan book of c£850m in the near-term. At this level, profits generated are expected to continue to support further annualised organic loan book growth in the range of £80-100m per annum without the need for additional dilutive tier 1 equity capital.

The strong profitability and increased utilisation of the ENABLE Guarantee with the British Business Bank has led to a positive increase in the CET1 ratio in the period to 23.2% (30 June 2023: 22.7%; 31 December 2023: 22.8%), sitting well above our regulatory minimum. Regulatory capital which is the Common Equity Tier 1 capital together with Tier 2 capital increased to £100.0m (30 June 2023: £80.2m; 31 December 2023 £89.5m) reflecting the drawing of £10m in H2 2023 under the £20m Tier 2 capital facility with British Business Investments.

Current outlook

Whilst the macro-economic environment continues to show signs of uncertainty, it is pleasing to see that our products and services remain in strong demand and our traditional sectors are now performing in line with historical norms and seasonality in demand. As we look towards the end of the year, and enter the re-stocking period, we remain confident about our ability to grow our loan book across the wider spectrum of businesses we now support in line with expectations.

We are now well progressed with the organic build of a hire purchase product and expect the technology and processes to be "launch ready" for the end of the year, enabling us to work with our dealer and manufacturer partners in a deeper way by providing loans to their customers and supporting further sales. We have now applied to the Financial Conduct Authority for consumer lending permissions, and should our application be successful, we expect to be able to provide consumer hire purchase, alongside hire purchase to businesses, in H1 2025.

We are now close to four years operating as a bank, having received authorisation in September 2020. The progress we have made during that time, not least achieving sustainable levels of profitability by scaling the firm, but also the culture that is now core to how we operate, are a testament to the entire DF Capital community. I'm excited about the opportunities ahead.

Carl D'Ammassa
Chief Executive Officer

	30 June 2024 6-month (Unaudited)	30 June 2023 6-month (Unaudited)	31 December 2023 12-month (Audited)
Financial highlights:			
Gross revenues (£m) [1]	37.9	27.3	60.4
Profit before taxation (£m)	9.2	3.2	4.6
Profit after taxation (£m)	6.7	2.3	3.2
Loan book principal (£m) [2]	603	519	581
Net assets (£m) [3]	107.6	98.8	100.4
Customer deposits (£m)	579.0	498.4	574.6
Regulatory capital (£m) [4]	100.0	80.2	89.5
Common Equity Tier 1 capital ratio[5]	23.2%	22.7%	22.8%
Regulatory capital (as a % of RWA) [6]	25.9%	22.7%	25.8%
Gross yield[7]	12.1%	10.6%	11.1%
Net interest margin[8]	7.8%	7.5%	7.6%
Average cost of retail deposits[9]	5.1%	3.7%	4.3%
Cost of risk[10]	0.04%	1.55%	2.28%
Impairment loss coverage on loans to customers[11]	0.83%	1.38%	2.50%
Cost income ratio[12]	59%	61%	58%
Basic earnings per share (pence)	3.8	1.0	1.8
Tangible net asset value per share (pence) [13]	59.6	54.7	55.6
Key Performance Indicators:			
Loans advanced to customers (£m)	710	607	1,200
Number of dealer customers[14]	1,250	1,152	1,182
Number of manufacturer partners[15]	90	86	89
Total credit available to dealers (£m) [16]	1,088	926	1,030

[1] Sum of interest and similar income, fee income less fee expenses, net gains/(losses) from derivatives measured at fair value through profit or loss and other operating income.
[2] Principal balance outstanding for loans and advances to customers.
[3] The equity held in the Group
[4] Regulatory capital is the Common Equity Tier 1 capital (which includes current year profit) together with Tier 2 capital
[5] Common Equity Tier 1 capital (which includes current year profit) divided by Risk Weighted Assets
[6] Regulatory capital divided by Risk Weighted Assets
[7] The effective interest rate we charge our customers comprising interest income and including fees
[8] Total operating income adding back fee expense as a % of average gross receivables
[9] The weighted average interest rate we pay our depositors
[10] Impairment charges and recoveries and provisions in the period (annualised) as a % of average gross receivables.
[11] Impairment allowance as a % of gross receivables at the period end
[12] Operating cost as a % of total operating income.
[13] Net assets less intangible assets divided by the weighted average number of shares in issue
[14] Number of borrower relationships
[15] Number of vendors and manufacturers with whom we have programs that support our lending
[16] Amount of credit available to our customers to draw (uncommitted) including existing drawings

Alternative Performance Measures

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

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

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

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

Principal Risks		
Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. We have a framework in place which sets out our approach to Operational Risk, with associated roles and responsibilities further defined in a number of risk policies and standard operating procedures covering the various types of Operational Risk. Although the overall scope of Operational Risk would cover areas of Conduct and Compliance (i.e. regulatory) risks, we believe it makes sense to separate these items out as individual principal risks - Conduct Risk and Compliance Risk respectively given the importance of these risks in the context of the bank's activities and regulatory environment.	**Key risk mitigation tools:** operational risk policies, standard operating procedures, Risk and Control Self Assessments ("RCSAs"), risk event analysis, key controls testing, ongoing monitoring of risk metrics and limits, scenario analysis, information security and cyber defences, operational risk training, Operational Forums aligned to defined customer and internal journeys, change management framework, operational resilience framework, physical security and safety, regular risk training, Executive Risk Committee oversight.
Compliance Risk	**Compliance risk** is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the firm may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities. DF Capital operates within the context of the UK legal and regulatory environment. Our Compliance Framework sets out the responsibilities within the firm to ensure awareness of both current and upcoming legal and regulatory changes and how the firm plans and implements those requirements appropriately. Compliance risk also includes the Group's obligations under the Money Laundering Regulations and covers the Groups exposure to customer-specific risk assessments, compliance monitoring plan, ongoing monitoring of risk metrics and limits, customer risk assessments, regulatory compliance training, Executive Risk Committee oversight.	**Key risk mitigation tools:** compliance policies, regulatory monitor, enterprise-wide compliance and customer-specific risk assessments, compliance monitoring plan, ongoing monitoring of risk metrics and limits, customer risk assessments, regulatory compliance training, Executive Risk Committee oversight.
Conduct Risk	We define conduct risk as the risk of detriment caused to DF Capital's customers or financial markets due to inappropriate execution of its business activities and processes, including the sale of unsuitable products and inappropriate behaviours. The Conduct Risk Framework outlines our approach for ensuring good customer outcomes in line with the New Consumer Duty. It is supported by specific policies covering topics such as product governance, complaints, and vulnerable customers, which detail the specific steps and responsibilities across the firm. The scope of conduct risk coverage includes our AIM requirements, with policies such as a Market Abuse Regime Policy (including Share Dealing Code) and a Substantial and Related Party Transactions Policy.	**Key risk mitigation tools:** conduct risk policies, product governance, enterprise-wide conduct risk assessment, ongoing monitoring of risk metrics and limits, monitoring of complaints and customer feedback, key controls testing, Code of Ethics, conduct risk training and Executive Risk Committee oversight.

Prudential Risk	Prudential risk covers three financial risks relating to the bank maintaining sufficient resources to ensure it is financially resilient: • Funding and liquidity risk: The risk that DF Capital is not able to meet its financial obligations as they fall due or that it does not have the tenor and composition of funding and liquidity to support its assets. • Capital risk: The risk that DF Capital has an insufficient amount or quality of capital to support the regulatory requirements of its business activities through normal and stressed conditions. • Market risk (including interest rate risk): The risk of financial loss through un-hedged or mismatched asset and liability positions due to interest rate changes. This also includes the risk that assets and liabilities reference different interest rate bases and the risk of adverse financial impact from movements in market prices in the value of assets and liabilities. Roles, responsibilities, and requirements for Liquidity and Capital management are outlined in the Treasury Policy, with risk appetite taking into account the results of the bank's ILAAP and ICAAP. The Treasury Policy also outlines the roles and responsibilities required for identifying, measuring, monitoring and controlling any interest rate risk which arises due to the mismatch between assets and liabilities.	**Key risk mitigation tools:** treasury policies, ICAAP, ILAAP, funds transfer pricing policy, additional stress testing, ongoing monitoring of risk metrics and limits, financial planning and forecasting, monitoring of external environment, Asset & Liability Committee and Executive Risk Committee oversight.
Credit Risk	Credit risk is the risk of financial loss arising from a customer or counterparty failing to meet their financial obligations to DF Capital. Credit risk is considered the most significant risk faced by DF Capital and can be broken down into the following categories: • Client Default Risk: The risk of loss arising from a failure of a borrower to meet their obligations under a credit agreement. • Credit Concentration Risk: The risk of loss due to the concentration of credit risk to a specific customer, counterparty, geography, or industry. • Repurchase Risk: The risk of loss arising from the failure of a third-party to meet a claim under a repurchase agreement. • Security Risk: The risk that an asset used as security to mitigate a credit loss does not provide the protection to the Company that is expected, leading to unanticipated losses. • Counterparty Risk: The failure of a Group counterparty or derivative provider. A credit framework and policies are in place to manage DF Capital's credit risk exposure, covering the roles and responsibilities of the Group's lending and investment activities.	**Key risk mitigation tools:** Credit underwriting criteria, asset audits, sector deep-dive reviews, portfolio monitoring, ongoing monitoring of risk metrics and limits, hindsight reviews of default events, monitoring of external environment, Credit Committee and Executive Risk Committee oversight.
Strategic Risk	Strategic risks are the risks which can adversely impact the ability of DF Capital in achieving its strategic objectives. These risks may impact shareholder value, earnings or growth from poor strategic decisions, improper implementation of business strategies or from external events.	**Key risk mitigation tools:** Executive Committee and Board oversight, comprehensive risk assessments of strategic and financial plans, stress testing, horizon scanning, ongoing monitoring of macro- and microeconomic environment, change management framework.

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

- Strategic Planning Risk: The risk of strategic plans being unachievable or unrealistic.
- Execution Risk: The risk of failing to execute the Group's strategy and failing to deliver key strategic initiatives required to meet the financial and commercial targets of the Group.
- Strategic Projects Risk: The risk of delay or failure of strategic projects and programmes.
- External Environment: The risk of failing to address the impact of external events and competitive threats.

Strategic risks are considered as part of DF Capital's strategic and financial plans. Stress scenarios are modelled as part of the ICAAP and ILAAP to determine what level of capital and liquidity the Group will need to hold in support of its strategic and financial plans.

The Enterprise-wide key and emerging risks of the Group are: Macro-economic risks; Operational execution and change; Cyber risk; and Climate change. Full details of each emerging risk, including the potential impact of the risk and how the risk is managed, are set out in the 2023 Annual Report and Accounts. As for any organisation, we are exposed to near-term plan risk, given the comments made about macro-economic risk below.

Relevant updates for these risks are provided below.

Macro-economic risk
Whilst the UK macro-economic environment outlook has slightly improved in recent months with growth in the economy, falling inflation and the commencement of Bank of England base rate deductions, the outlook is still uncertain. Therefore, although we believe the credit quality of the portfolio to be robust, we still regard the macro-economic risks as elevated.

We also note that the global geopolitical climate remains difficult with the conflict between Russia and Ukraine and major instability in the middle east. These events have the potential to escalate in a way that could potentially cause further supply side shocks, meaning a renewed bout of inflation and supply chain issues cannot be ruled out.

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

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

By order of the Board

……………………………
Carl D'Ammassa
Director
18 September 2024

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 which comprises the condensed consolidated statement of comprehensive income statement, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cashflow statement and related notes 1 to 32.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the AIM Rules of the London Stock Exchange.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Conclusion Relating to Going Concern

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

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

Responsibilities of the directors

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

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

Auditor’s Responsibilities for the review of the financial information

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

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
18 September 2024

Condensed Consolidated Statement of Comprehensive Income

	Note	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Interest and similar income	5	37,657	26,542	59,970
Interest and similar expenses	6	(15,383)	(9,126)	(22,336)
Net interest income		**22,274**	**17,416**	**37,634**
Fee income	7	695	819	1,393
Fee expenses	8	(688)	(180)	(719)
Net gains/(losses) on derivatives at fair value through profit or loss	9	225	72	(303)
Other operating income		-	6	9
Total operating income		**22,506**	**18,133**	**38,014**
Staff costs	10	(7,823)	(7,155)	(13,431)
Other operating expenses	11	(5,403)	(3,993)	(8,412)
Net impairment loss on financial assets	13	(106)	(3,786)	(11,598)
Total operating profit		**9,174**	**3,199**	**4,573**
Profit before taxation		**9,174**	**3,199**	**4,573**
Taxation charge	14	(2,443)	(938)	(1,418)
Profit after taxation		**6,731**	**2,261**	**3,155**
Other comprehensive income/(loss):				
Items that may subsequently be transferred to the income statement:				
FVOCI debt securities:				
Fair value movements		74	(53)	183
Total other comprehensive income/(loss) for the period, net of tax		**74**	**(53)**	**183**
Total comprehensive income for the period		**6,805**	**2,208**	**3,338**
Earnings per share:		**pence**	**pence**	**pence**
Basic EPS	30	3.8	1.0	1.8
Diluted EPS	30	3.6	1.0	1.7

DF Capital

	Note	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Assets:				
Cash and balances at central banks		86,036	46,642	89,552
Loans and advances to banks		3,496	5,067	3,475
Investment securities	27	6,175	24,528	14,839
Derivatives held for risk management		210	-	537
Loans and advances to customers	15	596,771	513,787	568,044
Trade and other receivables	16	5,126	2,340	5,335
Current taxation asset	17	-	55	55
Deferred taxation asset	19	5,265	7,519	7,111
Non-current assets held for sale		50	-	-
Property, plant and equipment		1,303	1,220	1,145
Right-of-use assets	20	1,141	1,299	1,227
Intangible assets		632	780	618
Total assets		**706,205**	**603,237**	**691,938**
Liabilities:				
Customer deposits	23	579,012	498,357	574,622
Amounts due to banks		180	-	-
Derivatives held for risk management		65	1,409	565
Fair value adjustments on hedged liabilities	28	182	(1,579)	424
Financial liabilities	24	1,127	1,317	1,255
Trade and other payables		7,101	4,829	4,297
Provisions	12	70	64	67
Current taxation liability	18	670	-	73
Subordinated liabilities	26	10,225	-	10,221
Total liabilities		**598,632**	**504,397**	**591,524**
Equity:				
Issued share capital	22	1,793	1,793	1,793
Share premium	22	-	-	-
Merger relief	22	94,911	94,911	94,911
Merger reserve		(20,609)	(20,609)	(20,609)
Own shares		(439)	(364)	(401)
Retained earnings		31,917	23,109	24,720
Total equity		**107,573**	**98,840**	**100,414**
Total equity and liabilities		**706,205**	**603,237**	**691,938**

	Issued share capital £'000	Share premium £'000	Merger relief £'000	Merger reserve £'000	Own shares[1] £'000	Retained earnings/ (loss) £'000	Total £'000
Balance at 31 December 2022 (Audited)	**1,793**	**39,273**	**94,911**	**(20,609)**	**(364)**	**(18,765)**	**96,239**
Profit after taxation	-	-	-	-	-	2,261	2,261
Other comprehensive (loss)	-	-	-	-	-	(53)	(53)
Share-based payments	-	-	-	-	-	393	393
Share premium account cancellation	-	(39,273)	-	-	-	39,273	-
Balance at 30 June 2023 (Unaudited)	**1,793**	**-**	**94,911**	**(20,609)**	**(364)**	**23,109**	**98,840**
Profit after taxation	-	-	-	-	-	894	894
Other comprehensive income	-	-	-	-	-	236	236
Share-based payments	-	-	-	-	-	512	512
Employee Benefit Trust[1]	-	-	-	-	(37)	(31)	(68)
Balance at 31 December 2023 (Audited)	**1,793**	**-**	**94,911**	**(20,609)**	**(401)**	**24,720**	**100,414**
Profit after taxation	-	-	-	-	-	6,731	6,731
Other comprehensive income	-	-	-	-	-	74	74
Share-based payments	-	-	-	-	-	493	493
Employee Benefit Trust[1]	-	-	-	-	(38)	(101)	(139)
Balance at 30 June 2024 (Unaudited)	**1,793**	**-**	**94,911**	**(20,609)**	**(439)**	**31,917**	**107,573**

[1]The Group has adopted look-through accounting (see note 1 of the 2023 Annual Report and Accounts) and recognised the Employee Benefit Trust (EBT) within the consolidated financial statements.

Condensed Consolidated Cash Flow Statement

	Note	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Cash flows from operating activities:				
Profit before taxation		9,174	3,199	4,573
Adjustments for non-cash items and other adjustments				
Included in the income statement	21	1,948	4,174	13,000
Increase in operating assets	21	(28,693)	(85,081)	(149,456)
Increase in operating liabilities	21	6,654	17,281	94,171
Taxation received		55	-	-
Net cash used in operating activities		**(10,862)**	**(60,427)**	**(37,712)**
Cash flows from investing activities:				
Purchase of debt securities	27	(4,936)	(14,554)	(14,554)
Proceeds from sale and maturity of debt securities	27	15,000	13,000	23,000
Interest received from money market funds		3	-	-
Interest received on debt securities	27	75	196	383
Purchase of own shares		(138)	-	(67)
Purchase of property, plant and equipment		(364)	(318)	(418)
Purchase of intangible assets		(166)	(103)	(117)
Net cash generated from/(used in) investing activities		**9,474**	**(1,779)**	**8,227**
Cash flows from financing activities:				
Repayment of lease liabilities	25	(130)	(106)	(227)
Issuance of subordinated liabilities	26	-	-	10,000
Acquisition of subordinated liabilities		-	-	(51)
Coupon paid on subordinated liabilities		(634)	-	-
Net cash (used in)/generated from financing activities		**(764)**	**(106)**	**9,722**
Net decrease in cash and cash equivalents		**(2,152)**	**(62,312)**	**(19,763)**
Cash and cash equivalents at start of the period	21	90,867	110,630	110,630
Cash and cash equivalents at end of the period	**21**	**88,715**	**48,318**	**90,867**

1. Basis of preparation

1.1 General information

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

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

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

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

1.2 Basis of accounting

The condensed consolidated set of financial statements included in this Interim Financial Report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34').

The condensed set of financial statements included within this Interim Financial Report for the six months ended 30 June 2024 should be read in conjunction with the annual audited financial statements of Distribution Finance Capital Holdings plc for the year ended 31 December 2023.

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

The condensed consolidated financial information for the six months ended 30 June 2024 has been prepared using accounting policies consistent with IFRS. The interim information does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The financial information for the periods ending 30 June 2024 and 30 June 2023 are unaudited but has been reviewed by the Company's auditor, Deloitte LLP, and their report appears on page 17 of this Interim Financial Report. The comparative figures for the year ended 31 December 2023 are the Group's statutory accounts and have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

1.3 Principal accounting policies

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

1.4 Reclassification

During the period ended 30 June 2024, the Group invested into a low volatility money market fund. This is a type of investment security which required presentation under a new financial statement caption. In addition to this fund, the Group also hold debt securities in the form of UK treasury bills (and previously government gilts) which represent a sub-category of investment securities. These balances which were previously presented as 'debt securities' within the statement of financial position will now be presented under 'investment securities' in addition to the balance invested into the money market fund.

For the period ended 30 June 2024, the Group has reclassified £4,983,000 from 'debt securities' to 'investment securities' (30 June 2023: £24,528,000; 31 December 2023: £14,839,000). Both debt and investment securities operate under the same accounting policy, IFRS 9 – financial instruments, with the policy remaining unchanged.

1.5 Going concern
The financial statements are prepared on a going concern basis as the Directors are satisfied that the Group has adequate resources to continue operating for a period of at least 12 months from the date of approval of the financial statements.

In making this assessment the Directors have considered the Group's current available capital and liquidity resources, the business financial projections and the outcome of stress testing. Based on this review, the Directors believe that the Group is well placed to manage its business risks successfully within the expected economic outlook. Accordingly, the Directors have adopted the going concern basis in preparing the Interim Financial statements.

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

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

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

1.7 Foreign currency translation
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.

1.8 New accounting standards issued but not yet effective
The Group assesses on an ongoing basis the impact of new accounting standards which are not yet effective at the reporting date and the likely impact of the new accounting standard on the financial statements. At 30 June 2024, the Group has applied all new IFRS and foresees no additional standards with a likely material impact to consider at this time.

2. Summary of significant accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated set of financial statements as applied in the Group's latest annual audited financial statements for the year ended 31 December 2023, with the addition of the below policy.

2.1 Non-current 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.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

The areas involving the most complex and subjective judgements and areas where assumptions and estimates are considered to have the most significant effect on the financial statements are the same as those set out in Note 3 of the 2023 Annual Report and Accounts. A summary and updates regarding these critical accounting judgements and estimates are set out below.

Judgements

3.1. Expected credit losses loan impairment

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

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

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

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

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

Estimates

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

3.2. Expected credit losses loan impairment

See the Group's Annual Report for the year ended 31 December 2023 which outlines the assumptions the Group includes to best estimate the probability of default ("PD"), exposure at default ("EAD"); and loss given default ("LGD") inputs within the impairment model in order to calculate the expected credit loss ("ECL"). The general design of the impairment model remains unchanged for the period ended 30 June 2024, however certain assumptions have been updated to reflect changes in circumstances.

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

Consequently, the Group utilises external macro-economic forecast data sourced from an external economics research company to adjust PDs from Through-the-Cycle to Point-in-Time, and further consider how default activity may evolve in the future. Following this exercise, as at 30 June 2024 the Group has applied a 34% scalar increase to its PDs (30 June 2023 40%; 31 December 2023 34%).

A 100% deterioration in PDs (excluding stage 3 exposures, which are already in default) would result in an additional impairment charge of £2,429,000 at 30 June 2024 (30 June 2023: £1,643,000; 31 December 2023: £1,901,000).

Loss Given Default ("LGD")
The Group reviewed its LGD modelling assumptions as at 30 June 2024 by comparing actual loss given default values against modelled LGD. The Group concluded its current LGD modelling was closely aligned to recent historical actuals.

A 10% reduction in the expected discounted cashflows from the collateral held by the Group would result in an additional impairment charge of £1,296,000 at 30 June 2024 (30 June 2023: £2,356,000; 31 December 2023: £967,000).

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

Scenario	Probability Weighting (%)	ECL Impairment (£'000)	ECL Coverage[1] (%)
30 June 2024 (Unaudited)			
Upside	20%	6,332	1.04%
Base	50%	7,118	1.17%
Downside	20%	8,722	1.44%
Severe downside	10%	14,110	2.33%
Weighted total	**100%**	**7,980**	**1.32%**
30 June 2023 (Unaudited)			
Upside	15%	5,537	1.05%
Base	55%	6,286	1.19%
Downside	25%	9,026	1.71%
Severe downside	5%	12,778	2.42%
Weighted total	**100%**	**7,198**	**1.38%**

31 December 2023 (Audited)			
Upside	20%	13,181	2.22%
Base	50%	13,816	2.33%
Downside	20%	15,243	2.57%
Severe downside	10%	20,037	3.38%
Weighted total	**100%**	**14,596**	**2.50%**

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

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

Scenario	**30 June 2024 (Unaudited) £'000**	**30 June 2023 (Unaudited) £'000**	**31 December 2023 (Audited) £'000**
Upside	(1,648)	(1,661)	(1,415)
Base	(862)	(912)	(780)
Downside	742	1,828	647
Severe downside	6,130	5,580	5,441

3.3. Deferred taxation asset

The Group recognises a deferred taxation asset at 30 June 2024 based on the latest approved financial forecasts through to December 2027 with the deferred taxation asset being fully utilised during this period.

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

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

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

In each of the individual sensitivities performed above, the reduction in profitability means the timing of full recovery of the deferred tax asset is delayed, but in all cases it is expected to be fully utilised within 5 years and, therefore, the Board is satisfied that these sensitivities do not impact the level of deferred tax asset to be recognised at 30 June 2024.

In the six-month period ended 30 June 2024, the Group has performed favourably in accordance with the forecasts used to estimate the deferred taxation asset. The Group has updated its forecasts for actual performance in the elapsed period to ensure the deferred taxation asset recognition is still valid.

4. Operating segments

It is the Directors' view that the Group's products and the markets to which they are offered are so similar in nature that they are reported as one class of business. All customers are currently UK-based only. As a result, it is considered that the chief operating decision maker uses only one segment to control resources and assess the performance of the entity, while deciding the strategic direction of the Group.

5. Interest and similar income

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
At amortised cost (using effective interest rate method):			
On loans and advances to customers	35,101	25,070	55,203
On loans and advances to banks	2,341	1,213	4,246
On money market fund	6	-	-
	37,448	**26,283**	**59,449**
At FVOCI:			
On debt securities	209	259	521
Total interest and similar income	**37,657**	**26,542**	**59,970**

6. Interest and similar expenses

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
At amortised cost (using effective interest rate method):			
On customer deposits	14,341	8,741	21,799
On subordinated liabilities	633	-	269
	14,974	**8,741**	**22,068**
At FVTPL:			
Net interest expense on financial instruments hedging liabilities	409	385	268
Total interest and similar expenses	**15,383**	**9,126**	**22,336**

7. Fee Income

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Facility-related fees	621	819	1,393
Other fee Income	74	-	-
Total fee income	**695**	**819**	**1,393**

8. Fee Expense

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Enable guarantee charges	469	176	648
Financial guarantee charges	196	-	19
Undrawn commitment facility fees	10	-	8
Non-incremental direct costs	13	4	44
Total fee expense	**688**	**180**	**719**

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

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Net gains/(losses) on:			
Interest rate swaps	198	72	(303)
Foreign currency swaps	27	-	-
Total net gains/(losses) from derivatives and other financial instruments at FVTPL	**225**	**72**	**(303)**

10. Staff costs

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Wages and salaries	5,993	5,672	10,437
Share-based payments	493	393	905
Contractor costs	53	16	22
Social security costs	868	757	1,314
Pension costs arising on defined contribution schemes	416	317	753
Total staff costs	**7,823**	**7,155**	**13,431**

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.

11. Other operating expenses

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Finance costs	52	17	76
Depreciation	295	230	498
Amortisation of intangible assets	152	201	376
Professional services expenses	1,498	1,006	2,189
Audit and accountancy fees	264	240	418
IT-related expenses	1,710	1,236	2,506
Other operating expenses	1,403	1,063	2,349
Unrealised currency revaluation	29	-	-
Total other operating expenses	**5,403**	**3,993**	**8,412**

12. Provisions

Analysis for movements in other provisions:

	Leasehold dilapidations £'000
6 months ended 30 June 2024 (Unaudited)	
At start of period	67
Additions	-
Utilisation of provision	-
Unused amounts reversed	-
Unwinding of discount	3
Lease modification	-
At end of period	**70**
6 months ended 30 June 2023 (Unaudited)	
At start of period	77
Additions	25
Utilisation of provision	-
Unused amounts reversed	(10)
Unwinding of discount	2
Lease modification	(30)
At end of period	**64**
Year ended 31 December 2023 (Audited)	
At start of period	77
Additions	25
Utilisation of provision	-
Unused amounts reversed	(10)
Unwinding of discount	5
Lease modification	(30)
At end of period	**67**

13. Net impairment loss on financial assets

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Movement in impairment allowance in the period	(6,769)	3,673	11,034
Write-offs	8,620	113	564
Write-back of amounts written-off	(1,745)	-	-
Total net impairment losses on financial assets	**106**	**3,786**	**11,598**

See note 15 on further analysis of the movement in impairment allowances on loans and advances to customers.

14. Taxation

Analysis of tax charge recognised in the period:

	6 months ended 30 June 2024 (Unaudited) £'000	6 months ended 30 June 2023 (Unaudited) £'000	Year ended 31 December 2023 (Audited) £'000
Current taxation charge:			
UK corporation tax on profit for the current period	2,443	938	73
Adjustments in respect of prior years	-	-	-
Total current taxation charge	**2,443**	**938**	**73**
Deferred taxation charge:			
Current period	-	-	1,345
Adjustments in respect of prior years	-	-	-
Total deferred taxation charge	**-**	**-**	**1,345**
Total taxation charge	**2,443**	**938**	**1,418**

Current tax on profits reflects UK corporation tax levied at a rate of 25% for the period ended 30 June 2024 (30 June 2023: 23.5%; 31 December 2023: 23.5%). The Company is not subject to the banking surcharge levied at a rate of 3% on the profits of banking companies chargeable to corporation tax after an allowance of £100 million per annum.

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

A deferred tax asset is only recognised to the extent the Group finds it probable that the prior taxable losses can be utilised against future taxable profits.

15. Loans and advances to customers

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Loan book principal	602,560	519,348	580,525
Accrued interest and fees	4,099	3,135	3,602
Gross carrying amount	**606,659**	**522,483**	**584,127**
less: impairment allowance	(7,980)	(7,198)	(14,596)
less: effective interest rate adjustment	(1,908)	(1,498)	(1,487)
Total loans and advances to customers	**596,771**	**513,787**	**568,044**

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

Ageing analysis of gross loan receivables:

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Not in default:			
Not yet past due	598,697	505,480	566,503
Past due: 1 - 30 days	270	268	467
Past due: 31 - 60 days	144	78	35
Past due: 61 - 90 days	55	-	-
Past due: 90+ days	-	-	-
	599,166	**505,826**	**567,005**
Defaulted:			
Not yet past due and past due 1 - 90 days	5,974	5,502	5,020
Past due 90+ days	1,519	11,155	12,102
	7,493	**16,657**	**17,122**
Total gross carrying amount	**606,659**	**522,483**	**584,127**

Analysis of gross loan receivables in accordance with impairment losses:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2024 (Audited)	**545,952**	**21,052**	**17,123**	**584,127**
Transfer to Stage 1	16,689	(16,612)	(77)	-
Transfer to Stage 2	(41,655)	41,655	-	-
Transfer to Stage 3	(5,530)	(3,995)	9,525	-
Net lending/(repayment)	64,355	(22,746)	(10,911)	30,698
Write-offs	-	-	(8,166)	(8,166)
Total movement in receivables	**33,859**	**(1,698)**	**(9,629)**	**22,532**
As at 30 June 2024 (Unaudited)	**579,811**	**19,354**	**7,494**	**606,659**
Impairment allowance coverage at 30 June 2024	**0.53%**	**1.02%**	**62.52%**	**1.32%**

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2023 (Audited)	**410,756**	**13,323**	**17,205**	**441,284**
Transfer to Stage 1	42,913	(42,913)		-
Transfer to Stage 2	(88,983)	89,328	(345)	-
Transfer to Stage 3	(2,617)	(3,728)	6,345	-
Net lending/(repayment)	183,883	(34,958)	(5,727)	143,198
Write-offs	-	-	(355)	(355)
Total movement in receivables	**135,196**	**7,729**	**(82)**	**142,843**
As at 31 December 2023 (Audited)	**545,952**	**21,052**	**17,123**	**584,127**
Impairment allowance coverage at 31 December 2023	**46.00%**	**0.76%**	**69.58%**	**2.50%**

<u>Analysis of impairment losses on loans and advances to customers:</u>

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2024 (Audited)	**2,522**	**160**	**11,914**	**14,596**
Transfer to Stage 1	147	(145)	(2)	-
Transfer to Stage 2	(231)	231	-	-
Transfer to Stage 3	(46)	(30)	76	-
Remeasurement of impairment allowance	(71)	206	1,038	1,173
Net lending/(repayment)	777	(225)	251	803
Write-offs	-	-	(8,592)	(8,592)
Total movement in impairment allowance	**576**	**37**	**(7,229)**	**(6,616)**
As at 30 June 2024 (Unaudited)	**3,098**	**197**	**4,685**	**7,980**

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2023 (Audited)	**1,943**	**84**	**1,693**	**3,720**
Transfer to Stage 1	365	(365)	-	-
Transfer to Stage 2	(464)	606	(142)	-
Transfer to Stage 3	(16)	(174)	190	-
Remeasurement of impairment allowance	(1,668)	266	10,870	9,468
Net lending/(repayment)	2,362	(257)	(342)	1,763
Write-offs	-	-	(355)	(355)
Total movement in impairment allowance	**579**	**76**	**10,221**	**10,876**
As at 31 December 2023 (Audited)	**2,522**	**160**	**11,914**	**14,596**

16. Trade and other receivables

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Trade receivables	3,148	1,276	3,965
Impairment allowance	(106)	(296)	(259)
	3,042	**980**	**3,706**
Other debtors	403	352	452
Accrued income	-	(89)	-
Prepayments	1,681	1,097	1,177
	2,084	**1,360**	**1,629**
Total trade and other receivables	**5,126**	**2,340**	**5,335**

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

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

Ageing analysis of trade receivables:

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Not in default:			
Not yet past due	2,545	941	3,513
Past due: 1 - 30 days	504	9	21
Past due: 31 - 60 days	51	41	176
Past due: 61 - 90 days	29	-	12
Past due: 90+ days	-	-	1
	3,129	**991**	**3,723**
Defaulted:			
Not yet past due and past due 1 - 90 days	9	255	65
Past due 90+ days	10	30	177
	19	**285**	**242**
Total trade receivables	**3,148**	**1,276**	**3,965**

Analysis of movement of impairment losses on trade receivables:

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
At 1 January	**259**	**101**	**101**
Amounts written off	(206)	(1)	(8)
Amounts recovered	-	-	-
Change in impairment allowance due to new trade and other receivables originated net of those derecognised due to settlement	53	196	166
At period end	**106**	**296**	**259**

17. Current taxation asset

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
At 1 January	**55**	**55**	**55**
Repayments	(55)	-	-
At period end	**-**	**55**	**55**

18. Current taxation liability

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
At 1 January	**(73)**	**-**	**-**
Charge to profit and loss account	(597)	-	**(73)**
Repayments	-	-	-
At period end	**(670)**	**-**	**(73)**

19. Deferred taxation asset

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

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
At 1 January	**7,111**	**8,457**	**8,457**
Charge to profit and loss account	-	-	(1,346)
Utilisation of deferred taxation asset	(1,846)	(938)	-
At period end	**5,265**	**7,519**	**7,111**

The Group has an unrecognised deferred tax asset value of £0.7m (30 June 2023: £0.8m, 31 December 2023: £0.7m) which is not expected to be utilised for the foreseeable future.

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

20. Right-of-use assets

	Buildings £'000
Cost:	
31 December 2022 (Audited)	**1,153**
Additions	385
Disposals and write offs	-
Lease modifications	567
As at 30 June 2023 (Unaudited)	**2,105**
Additions	22
Disposals and write offs	-
As at 31 December 2023 (Audited)	**2,127**
Additions	3
Disposals and write offs	-
As at 30 June 2024 (Unaudited)	**2,130**

Accumulated depreciation:	
31 December 2022 (Audited)	**720**
Charge for the period	86
Disposals and write offs	-
As at 30 June 2023 (Unaudited)	**806**
Charge for the period	94
Disposals and write offs	-
As at 31 December 2023 (Audited)	**900**
Charge for the period	89
Disposals and write offs	-
As at 30 June 2024 (Unaudited)	**989**
Carrying amount:	
At 30 June 2023 (Unaudited)	1,299
At 31 December 2023 (Audited)	1,227
At 30 June 2024 (Unaudited)	**1,141**

21. Notes to the cash flow statement

Cash and cash equivalents:

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

	30 June 2024 (Unaudited) £'000	**30 June 2023 (Unaudited) £'000**	**31 December 2023 (Audited) £'000**
Cash and balances at central banks	86,036	46,642	89,552
Loans and advances to banks	1,487	1,676	1,315
Money market fund	1,192	-	-
Total cash and cash equivalents	**88,715**	**48,318**	**90,867**

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

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Depreciation of property, plant and equipment	206	144	318
Depreciation of right-of-use assets	89	86	180
Amortisation of intangible assets	152	201	376
Share-based payments	493	393	905
Impairment allowances on receivables	106	3,786	11,598
Movement in other provisions	-	(13)	(15)
Interest income on money market funds	(3)	-	-
Interest income on debt securities	(209)	(259)	(521)
Finance costs	52	17	76
Unwind of discount	3	2	5
Interest on subordinated liabilities	633	-	269
Amortisation of subordinated liabilities acquisition costs	5	-	3
Interest in suspense	421	(183)	(194)
Total non-cash items and other adjustments	**1,948**	**4,174**	**13,000**

Net change in operating assets:

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Increase in loans and advances to customers	(29,060)	(65,095)	(141,648)
Derivative financial instruments	327	57	(480)
Increase/(decrease) in other assets	40	(20,043)	(7,328)
Increase in operating assets	**(28,693)**	**(85,081)**	**(149,456)**

Net change in operating liabilities:

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Increase in customer deposits	4,390	18,622	94,886
Derivative financial instruments	(500)	1,367	522
Fair value adjustments for portfolio hedged risk	(242)	(1,495)	508
Increase/(decrease) in other liabilities	2,830	(1,213)	(1,745)
Increase in operating liabilities	**6,478**	**17,281**	**94,171**

22. Equity

	30 June 2024 (Unaudited) No.	30 June 2023 (Unaudited) No.	31 December 2023 (Audited) No.	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Authorised:						
Ordinary shares of 1p each	179,369,199	179,369,199	179,369,199	1,793	1,793	1,793
Allotted, issued and fully paid:						
Ordinary shares of 1p each	179,369,199	179,369,199	179,369,199	1,793	1,793	1,793

<u>Analysis of the movements in share capital:</u>

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

<u>Own shares:</u>

Own shares represent 2,677,859 (30 June 2023: 2,963,283; 31 December 2023: 2,926,617) ordinary shares held by the Group's Employee Benefits Trust to meet obligations under the Company's share and share option plans. The shares are stated at cost and their market value at 30 June 2024 was £780,463 (30 June 2023: £1,022,333; 31 December 2023: £658,489).

23. Customer deposits

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Retail deposits	579,012	498,357	574,622
Total customer deposits	**579,012**	**498,357**	**574,622**
Maturity analysis:			
Amounts repayable within one year	476,466	435,159	512,168
Amounts repayable after one year	102,546	63,198	62,454

24. Financial liabilities

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Lease liabilities	1,127	1,267	1,205
Preference shares	-	50	50
Total financial liabilities	**1,127**	**1,317**	**1,255**

25. Lease liabilities

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Current	154	128	148
Non-current	973	1,139	1,057
Total lease liabilities	**1,127**	**1,267**	**1,205**
Maturity analysis:			
Year 1	252	253	253
Year 2	252	252	252
Year 3	252	252	252
Year 4	253	252	253
Year 5	252	253	252
Onwards	231	482	360
Total lease payments	**1,492**	**1,744**	**1,622**
Finance charges	(365)	(477)	(417)
Total lease liabilities	**1,127**	**1,267**	**1,205**

Movements in lease liabilities in the period:

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
At 1 January	**1,205**	**395**	**395**
Additions	-	365	365
Finance costs	52	17	76
Lease payments	(130)	(106)	(227)
Lease modification	-	596	596
At period end	**1,127**	**1,267**	**1,205**

26. Subordinated liabilities

	30 June 2024 (Unaudited)	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Tier 2 notes	10,000	-	10,000
Accrued interest	269	-	269
Deferred acquisition costs	(44)	-	(48)
Total subordinated liabilities	**10,225**	**-**	**10,221**

In September 2023 the Group entered into a non-dilutive Tier 2 capital facility from British Business Investments, with an initial £5m drawdown on inception and a further £5m drawdown in October 2023. The contractual term dates for the notes are 5 years from the respective drawdown date. The Group is required to pay bi-annual coupons with a full principal repayment due on the maturity date.

Refer to note 29 for the maturity profile of the subordinated liabilities

27. Investment securities

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Investments not measured at fair value:			
Money market fund	1,192	-	-
Debt securities measured at FVOCI:			
Treasury bills	4,983	-	-
UK government gilts	-	24,528	14,839
Total investment securities	**6,175**	**24,528**	**14,839**

Analysis of debt securities movements during the period:

At 1 January	**14,839**	**22,964**	**22,964**
Purchased debt securities	4,936	14,554	14,554
Proceeds from sold or maturing securities	(15,000)	(13,000)	(23,000)
Coupons received	(75)	(196)	(383)
Interest income	209	259	521
Unrealised Gains	74	(53)	183
At period end	**4,983**	**24,528**	**14,839**
Maturity profile of debt securities:			
Within 12 months	-	24,528	14,839
Over 12 months	4,983	-	-

In May 2024 the Group entered into a cross-currency swap to support lending denominated in non-GBP currencies. Surplus funds from the swap were invested into a low volatility money market fund to earn a return whilst retaining same day liquidity. The fund invests in a range of cash holding and short dated securities which are held to maturity. This materially removes exposure to market movements, meaning the fund consistently trades at par value.

The fund is a type of investment security which required presentation under a new financial statement caption. In addition to this fund, the Group also hold debt securities in the form of UK treasury bills (and previously government gilts) which represent a sub-category of investment securities. For the period ended 30 June 2024, the Group has reclassified £4,983,000 from 'debt securities' to 'investment securities' (30 June 2023: £24,528,000; 31 December 2023: £14,839,000).

28. Hedge accounting

	30 June 2024 (Unaudited) £'000	**30 June 2023 (Unaudited) £'000**	**31 December 2023 (Audited) £'000**
Hedged liabilities:			
Current hedge relationships	199	(1,593)	407
Swap inception adjustment	(17)	14	17
Fair value adjustments on hedged liabilities	**182**	**(1,579)**	**424**

As at the period ended 30 June 2024, the Group presently only hedges liabilities in the form of its customer deposits and subordinated liabilities. The Group does not hedge its loans and advances to customers given these assets are expected to reprice within a short time frame.

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

Further, the Group does not anticipate having to rebalance the hedging relationship once entered into due to the contractual terms of the hedged liabilities meaning that the contractual cash flows are highly predictable, with any deviation likely to be negligible. In the period ended 30 June 2024, there has been no cancelled or de-designated hedge relationships due to failed hedge accounting relationships.

29. Financial instruments

Analysis of financial instruments by valuation model

The Group measures fair values using the following hierarchy of methods:

- Level 1 – Quoted market price in an active market for an identical instrument
- Level 2 – Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for similar instruments that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

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

30 June 2024 (Unaudited)	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets not measured at fair value:					
Cash and balances at central banks	86,036	86,036	86,036	-	-
Loans and advances to banks	3,496	3,496	3,496	-	-
Investment securities	1,192	1,192	1,192	-	-
Loans and advances to customers	596,771	596,771	-	-	596,771
Trade receivables	3,042	3,042	-	-	3,042
Other receivables	403	403	-	-	403
	690,940	**690,940**	**90,724**	**-**	**600,216**
Financial liabilities not measured at fair value:					
Customer deposits	579,012	579,500	-	-	579,500
Amounts due to banks	180	180	180	-	-
Other financial liabilities	1,127	1,127	-	-	1,127
Subordinated liabilities	10,225	10,497	-	10,497	-
Trade payables	97	97	-	-	97
Other payables	4,317	4,317	-	-	4,317
	594,958	**595,718**	**180**	**10,497**	**585,041**

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

31 December 2023 (Audited)	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets not measured at fair value:					
Cash and balances at central banks	89,552	89,552	89,552	-	-
Loans and advances to banks	3,475	3,475	3,475	-	-
Loans and advances to customers	568,044	568,044	-	-	568,044
Trade receivables	3,706	3,706	-	-	3,706
Other receivables	452	452	-	-	452
	665,229	**665,229**	**93,027**	**-**	**572,202**
Financial liabilities not measured at fair value:					
Customer deposits	574,622	574,177	-	-	574,177
Other financial liabilities	1,205	1,205	-	-	1,205
Subordinated liabilities	10,221	10,742	-	10,742	-
Trade payables	528	528	-	-	528
Other payables	1,148	1,148	-	-	1,148
Preference shares	50	50	-	-	50
	587,774	**587,850**	**-**	**10,742**	**577,108**

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

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

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

Investment securities
The investment securities carried at amortised cost represent the Groups investment in a money market fund. Due to the short-term nature of the underlying investments which are held to maturity, the fund has never deviated from par value. The carrying value is therefore considered to be approximately equal to the fair value.

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

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

Subordinated liabilities
The fair value of the subordinated liabilities is estimated by discounting the expected cashflows using an interest rate for similar liabilities with the same remaining maturity rate and credit profile.

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

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

30 June 2024 (Unaudited)	Carrying Amount £'000	Principal Amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets measured at fair value:					
Debt securities	4,983	5,000	4,983	-	-
Derivative assets	210	10,000	-	210	-
	5,193	**15,000**	**4,983**	**210**	**-**
Financial liabilities measured at fair value:					
Derivative liabilities	65	10,000	-	65	-
	65	**10,000**	**-**	**65**	**-**

30 June 2023 (Unaudited)	Carrying Amount £'000	Principal Amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets measured at fair value:					
Debt securities	24,528	25,000	24,528	-	-
	24,528	**25,000**	**24,528**	**-**	**-**
Financial liabilities measured at fair value:					
Derivative liabilities	1,409	165,000	-	1,409	-
	1,409	**165,000**	**-**	**1,409**	**-**

31 December 2023 (Audited)	Carrying Amount £'000	Principal Amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets measured at fair value:					
Debt securities	14,839	15,000	14,839	-	-
Derivative assets	537	45,000	-	57	-
	15,376	**60,000**	**14,839**	**57**	**-**
Financial liabilities measured at fair value:					
Derivative liabilities	565	100,000	-	565	-
	565	**100,000**	**-**	**565**	**-**

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

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

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

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while providing an adequate return to shareholders.

Refer to the audited financial statement of the Group for the year ended 31 December 2023 for further details of the Group's approach to capital management.

Financial risk management

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

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

The Group is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk

Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. One of the Group's main income generating activities is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Refer to the audited financial statement of the Group for the year ended 31 December 2023 for further details of the Group's approach to credit risk management and impairment provisioning.

Collateral held as security:

	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Fully collateralised - loan-to-value* ratio:			
Less than 50%	14,123	4,972	14,261
51% to 70%	63,736	56,006	56,482
71% to 80%	113,066	61,764	93,582
81% to 90%	109,306	80,598	108,833
91% to 100%	274,914	301,148	291,266
Total collateralised lending	**575,145**	**504,488**	**564,424**
Partially collateralised lending	**-**	**-**	**-**
Unsecured lending	**31,514**	**17,995**	**19,703**

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

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

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

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

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

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

<u>Concentration of credit risk:</u>
The Group maintains policies and procedures to manage concentrations of credit at the counterparty level and industry level to achieve a diversified loan portfolio. The Group's gross receivable balance for loans and advances to customers is split by industry as follows:

	30 June 2024		**30 June 2023**		**31 December 2023**	
	£'000	**%**	**£'000**	**%**	**£'000**	**%**
<u>Leisure:</u>						
Lodges and holiday homes	118,549	19.5%	158,586	30.4%	148,441	25.4%
Motorhomes and caravans	164,020	27.0%	97,414	18.6%	131,478	22.5%
Marine	63,403	10.5%	48,420	9.3%	55,981	9.6%
Motorsport	33,813	5.6%	28,965	5.5%	27,458	4.7%
Automotive	21,803	3.6%	4,107	0.8%	8,366	1.4%
	401,588	**66.2%**	**337,492**	**64.6%**	**371,724**	**63.6%**
<u>Commercial:</u>						
Transport	104,854	17.3%	112,605	21.6%	130,982	22.4%
Industrial equipment	32,986	5.4%	31,644	6.1%	35,926	6.2%
Agricultural equipment	26,488	4.4%	25,835	4.9%	26,995	4.6%
Other serialised assets	3,575	0.6%	-	0.0%	-	0.0%
	167,903	**27.7%**	**170,084**	**32.6%**	**193,903**	**33.2%**
Wholesale and receivables funding	**37,168**	**6.1%**	**14,907**	**2.8%**	**18,500**	**3.2%**
Total gross receivables	**606,659**	**100%**	**522,483**	**100%**	**584,127**	**100%**

Credit quality of borrowers:

An analysis of the Group's credit risk exposure for loan and advances per class of financial asset, internal rating and "stage" is provided in the following tables. Refer to the audited financial statements of the Group for the year ended 31 December 2023 for description of the meanings of Stages 1, 2 and 3.

30 June 2024 (Unaudited)	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	£'000	**Portfolio %**	**£'000**	**Portfolio %**	**£'000**	**Portfolio %**	**£'000**	**Portfolio %**
Gross carrying amount:								
Above average (Risk rating 1-2)	441,583	73%	-	0%	251	0%	441,834	73%
Average (Risk rating 3-5)	118,170	20%	15,912	3%	-	0%	134,082	22%
Below average (Risk rating 6+)	20,058	3%	3,442	1%	7,243	1%	30,743	5%
Total gross carrying amount	**579,811**	**96%**	**19,354**	**3%**	**7,494**	**1%**	**606,659**	**100%**

	£'000	**ECL coverage %**	**£'000**	**ECL coverage %**	**£'000**	**ECL coverage %**	**£'000**	**ECL coverage %**
Impairment allowance:								
Above average (Risk rating 1-2)	(1,544)	0.3%	-	0.0%	(47)	18.7%	(1,591)	0.4%
Average (Risk rating 3-5)	(1,346)	1.1%	(131)	0.8%	-	0.0%	(1,477)	1.1%
Below average (Risk rating 6+)	(208)	1.0%	(66)	1.9%	(4,638)	64.0%	(4,912)	16.0%
Total impairment allowance	**(3,098)**	**0.5%**	**(197)**	**1.0%**	**(4,685)**	**62.5%**	**(7,980)**	**1.3%**

30 June 2023 (Unaudited)	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	£'000	**Portfolio %**	**£'000**	**Portfolio %**	**£'000**	**Portfolio %**	**£'000**	**Portfolio %**
Gross carrying amount:								
Above average (Risk rating 1-2)	366,504	70%	678	0%	-	0%	367,182	70%
Average (Risk rating 3-5)	90,005	17%	15,102	3%	37	0%	105,144	20%
Below average (Risk rating 6+)	30,837	6%	2,700	1%	16,620	3%	50,157	10%
Total gross carrying amount	**487,346**	**93%**	**18,480**	**4%**	**16,657**	**3%**	**522,483**	**100%**

	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %	£'000	ECL coverage %
Impairment allowance:								
Above average (Risk rating 1-2)	(944)	0.3%	(1)	0.2%	-	0.0%	(945)	0.3%
Average (Risk rating 3-5)	(1,101)	1.2%	(171)	1.1%	(1)	4.0%	(1,273)	1.2%
Below average (Risk rating 6+)	(304)	1.0%	(35)	1.3%	(4,641)	27.9%	(4,980)	9.9%
Total impairment allowance	**(2,349)**	**0.5%**	**(207)**	**1.1%**	**(4,642)**	**27.9%**	**(7,198)**	**1.4%**

31 December 2023 (Audited)	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	£'000	**Portfolio %**	**£'000**	**Portfolio %**	**£'000**	**Portfolio %**	**£'000**	**Portfolio %**
Gross carrying amount:								
Above average (Risk rating 1-2)	432,493	74%	-	0%	763	0%	433,256	74%
Average (Risk rating 3-5)	93,568	16%	17,729	3%	1,850	0%	113,147	19%
Below average (Risk rating 6+)	19,891	3%	3,323	1%	14,510	2%	37,724	6%
Total gross carrying amount	**545,952**	**93%**	**21,052**	**4%**	**17,123**	**3%**	**584,127**	**100%**
	£'000	**ECL coverage %**	**£'000**	**ECL coverage %**	**£'000**	**ECL coverage %**	**£'000**	**ECL coverage %**
Impairment allowance:								
Above average (Risk rating 1-2)	(1,483)	0.3%	-	0.0%	(526)	68.9%	(2,009)	0.5%
Average (Risk rating 3-5)	(860)	0.9%	(150)	0.8%	(315)	17.0%	(1,325)	1.2%
Below average (Risk rating 6+)	(179)	0.9%	(10)	0.3%	(11,073)	76.3%	(11,262)	29.9%
Total impairment allowance	**(2,522)**	**0.5%**	**(160)**	**0.8%**	**(11,914)**	**69.6%**	**(14,596)**	**2.5%**

See note 15 for analysis of the movements in gross loan receivables and impairment allowances in terms of IFRS 9 staging.

Analysis of credit quality of trade receivables:

	30 June 2023 (Unaudited) £'000	30 June 2022 (Unaudited) £'000	31 December 2022 (Audited) £'000
Status at balance sheet date:			
Not past due, nor defaulted	2,545	941	3,513
Past due but not in default	584	50	210
Defaulted	19	285	242
Total gross carrying amount	**3,148**	**1,276**	**3,965**
Impairment allowance	(106)	(296)	(259)
Carrying amount	**3,042**	**980**	**3,706**

See note 16 for analysis of the movements in gross trade receivables and impairment allowances in terms of IFRS 9 staging.

Liquidity risk

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

Refer to the audited financial statement of the Group for the year ended 31 December 2023 for further details of the Group's approach to liquidity risk management.

Market risk

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

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

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

Refer to the audited financial statement of the Group for the year ended 31 December 2023 for further details of the Group's approach to market risk management.

30. Earnings per share

Earnings attributable to ordinary shareholders	30 June 2024 (Unaudited) £'000	30 June 2023 (Unaudited) £'000	31 December 2023 (Audited) £'000
Profit after tax attributable to the shareholders	6,731	2,261	3,155
Weighted average number of shares, thousands			
Basic	179,369	179,369	179,369
Dilutive impact of share-based payment schemes	8,606	-	8,125
Diluted	187,975	179,369	187,494
Earnings per share, pence per share			
Basic	3.8	1.0	1.8
Diluted	3.6	1.0	1.7

31. Related party disclosures

During the six months period ended 30 June 2024, related party transactions have had no material effect on the financial position or performance of the Group. The related party transactions remain similar in nature to those disclosed in the audited financial statements of the Group for the year ended 31 December 2023.

32. Subsequent events

In July 2024 the ENABLE Guarantee with the British Business Bank was upsized from £250m to £350m.

There have been no other significant events between 30 June 2024 and the date of approval of the Interim Financial Report that require a change or additional disclosure in the condensed consolidated interim financial statements.

Alternative Performance Measures

Certain financial measures disclosed in the Interim Financial Report do not have a standardised meaning prescribed by International Financial Reporting Standards (IFRS) and may therefore not be comparable to similar measures presented by other issuers. Gross revenues and net interest margin are deemed to be alternative performance measures (“APMs”) with their definitions set out below.

Gross revenues (£m):

	30 June 2024 6-month (Unaudited)	30 June 2023 6-month (Unaudited)	31 December 2023 12-month (Audited)
Interest and similar income	37.7	26.5	60.0
Fee income	0.7	0.8	1.4
Fee expenses	(0.7)	(0.2)	(0.7)
Net gains/(losses) on derivatives at fair value through profit or loss and other operating income	0.2	0.1	(0.3)
Total gross revenues	**37.9**	**27.3**	**60.4**

Net interest margin (%):

	30 June 2024 6-month (Unaudited)	30 June 2023 6-month (Unaudited)	31 December 2023 12-month (Audited)
Total operating income (£m)	22.5	18.1	38.0
Add back: Fee expenses (£m)	0.7	0.2	0.7
Adjusted total operating income (£m)	23.2	18.3	38.7
Average gross receivables (£m)	591	489	509
Net interest margin (%)	**7.8%**	**7.5%**	**7.6%**

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