Company Registration No. 06113307

EVOLUTION LENDING LIMITED
Annual Report and Financial Statements
For the period ended 31 March 2023

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EVOLUTION LENDING LIMITED

REPORT AND FINANCIAL STATEMENTS

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Brilus
M Montgomery
K Pender
B Guvenc

REGISTERED OFFICE

9 Portland Street
Manchester
M1 3BE

BANKERS

NatWest PLC
250 Bishopsgate
London
EC2M 4AA

AUDITOR

Deloitte LLP
Statutory Auditor
The Hanover Building
Corporation Street
Manchester
M4 4AH

EVOLUTION LENDING LIMITED

STRATEGIC REPORT

BUSINESS REVIEW

The audited financial statements for the year ended 31 March 2023 are set out on pages 10 to 23.

The principal activity of the Company is the provision of secured personal loans to customers who are resident in the UK and do not have access to high street credit. There is a continuing opportunity to offer appropriate lending solutions to customers requiring loans but who are unable to access credit either due to problematic historical credit records or insufficient equity. The Company is well placed to serve these segments of the market thanks to its access to debt funding, ongoing development of broker relationships and other marketing channels, and investment in operational resources.

Business activity is funded using a special purpose vehicle, Evo Sec Funding 22 Ltd, which holds debt via a private warehouse. The Company sells receivables into the SPV for cash but substantially retains all the risks and rewards of the assets sold. The underlying receivables are therefore not derecognised and a deemed loan liability is held on the balance sheet of the Company to reflect the substance of the arrangement. The Company generated turnover of £29.3m (March 2022 (Restated): £20.7m) and reported an operating profit of £17.0m (March 2022 (Restated): £8.3m).

The Company's strategy is to grow the value of loan receivables whilst ensuring sustainable operating profits. This will be achieved by continuing to focus on offering a competitive range of products which meet the needs of each customer based on a detailed understanding of their financial circumstances. A key element of this strategy is to continue maintaining a market-leading customer service experience based upon encouraging clear communication, and which seeks to ensure that customers who are considered vulnerable are offered appropriate forbearance.

The Company has always been committed to the adherence of best practice and throughout the accounting period the Company continued to review its operating procedures and structures to ensure that it meets the high standards required by the Financial Conduct Authority ("FCA").

KEY PERFORMANCE INDICATORS

The Company measures performance against several key financial and non-financial indicators, including new loan originations, profitability, and loan book size. New business lending was up 51% on the prior year (from 2,716 in the year to March 2022 to 4,112 in the year to March 2023) and there was a 40% growth in the loan book (from £128.9m in March 2022 (Restated) to £180.0m). The Company's profit before tax increased by 27% from £3.3m in March 2022 (Restated) to £4.2m in March 2023.

SOCIAL RESPONSIBILITY

The Company has a social purpose to provide financial inclusion to homeowners in the UK who are underserved by mainstream lenders, and build better financial futures for customers by helping develop their credit profile.

Consideration of the Company's activities and their impact has been undertaken in all respects. The Company is committed to ensuring that it delivers value to its customers in a way that is both socially and environmentally acceptable and sustainable. Similarly, the Group has a socially responsible approach to employment policies with family-friendly working being introduced wherever possible. It is the Group's policy to consider all employment applications, and to provide access to training, and offer career development and promotion opportunities to employees.

The business puts customers and staff at the heart of the organisation. As the cost-of-living crisis starts to affect more people, the Company continues to offer tailored forbearance to any customers impacted. For the community, the business supports local charities which benefit the Manchester community.

PRINCIPAL RISKS & UNCERTAINTIES

The Company's financial instruments, other than short term debtors and creditors, comprise cash balances, secured loan facilities, and loan notes from the Parent undertaking, Evolution Money Group Limited.

In July 2022, the Group completed a refinancing of its existing facilities into a 2-year warehouse facility (private securitisation) increasing the overall funding to a maximum of c.£280m. The facility has a final maturity date of July 2026, split between available and amortising periods.

The main risks to the Company and the policies adopted by the Directors to minimise their effects on the Company, are as follows:

Interest rate and liquidity risk

Liquidity risk is managed by the Company's treasury function through the sale of receivables into the SPV. The drawdown of cash is managed to achieve a balance between access to working capital and minimising borrowings to control interest costs. The Directors continuously monitor the available loan facility and working capital requirements of the Company.

Interest rate risk exists on the Group's debt facilities, specifically as the interest rate charged is a fixed percentage over the Sterling Overnight Index Average (SONIA). This risk is considered low as all Evolution loans are variable rate products.

Credit Risk

The Company has strong and effective control over credit risk whilst growing the customer base. It has robust underwriting and collection processes which minimise the risk of delinquency and arrears, including forbearance where a customer demonstrates that they are unable to maintain full contractual repayments.

The business has continued to engage with external credit risk agencies to monitor the portfolio and provide reports which reflect the current economic situation. In an external assurance report, which applied extreme levels of inflation and interest rate shock to the portfolio, the results demonstrated a small uptick in the number of customers that would fall into a negative disposable income position, however, most customers in the portfolio would still be expected to maintain a positive disposable income position which is consistent with the Company's risk appetite and testament to the strength of the underwrite.

Regulatory and taxation risk

The Directors continuously monitor the external environment and adapt business practice to ensure that such risks are effectively managed, and that business practice remains fully compliant with all relevant laws and regulations.

Cost-of-living Crisis Risk

Rising oil, gas and food prices along with the ongoing war in Ukraine present additional risks to the business given the impact of the resulting inflation on household budgets. There is a risk these pressures will result in customer delinquency and hence increase the credit risk on the associated receivables.

The receivable amounts presented on the balance sheet are net of any allowance for increased levels of doubtful debts specifically attributable to those customers directly or indirectly impacted by the cost-of-living crisis. The Company maintains a robust inhouse collections process to ensure that fair customer outcomes are achieved, and appropriate levels of forbearance are offered. Due to the strength of the relationship between the Company and its customers, collection rates have remained strong throughout the period and are expected to remain so.

The economic uncertainty has resulted in an increase in the levels of demand as high street lenders begin to tighten underwriting criteria. The Company has committed access to debt funding and a unique underwriting process and is therefore well positioned to continue offering solutions to those customers who cannot access high street credit.

The UK's exit from the European Union has led to instability in the UK economy and capital markets, however, there has not been any significant impact on the Company to date.

Potential consequences for the Company would most likely be in the event of a macroeconomic downturn, including the possibility of higher unemployment and increased living costs.

The Company has taken precautionary measures by tightening lending criteria; however, the non-standard financing sector has a higher degree of losses under normal conditions and therefore the impact of an economic decline will be comparatively lower.

Approved by the Board of Directors and signed on behalf of the Board on 20 December 2023.

B Guvenc
Director
9 Portland Street
Manchester
M1 3BE

EVOLUTION LENDING LIMITED

DIRECTORS REPORT

DIRECTORS

The Directors who served during the year, and to the date of this report are set out below:

S Brilus
M Montgomery
K Pender
B Guvenc

The Directors present their annual report on the affairs of the Company, together with the audited financial statements and the auditor's report, for the year ended 31 March 2023.

Information about the use of financial instruments by the Company is given in note 11

DIRECTORS' INDEMNITIES

The Company and Group has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

GOING CONCERN

Having considered the impact of the factors outlined below, including cash flow and liquidity requirements of the company, and the company's forecasts which reflect the economic uncertainty arising from the cost-of-living crisis, the Directors expect that the Company will continue to trade for a period of at least twelve months from the date of approval of the financial statements and the Company will be able to meet its liabilities as they fall due. Accordingly, the financial statements have been prepared on a going concern basis of accounting.

The following points demonstrate how the company will continue as a going concern during this period of increased economic uncertainty:

- £8.8m of group cash balances as at 31 March 2023
- Significant levels of headroom across both Senior and Mezzanine facilities held in the SPV
- Committed Private Securitisation warehouse with a final maturity date of July 2026, split between available and amortising periods, and access to total commitment of £280m.
- Stress built into budgets showing a profitable business with no cash required from shareholders and adequate debt facility headroom.

FUTURE DEVELOPMENTS

The directors have adjusted new business forecasts to reflect a conservative estimate of the increased opportunity seen from the tightening of high street lending criteria. The company observes a good level of opportunity in a benign economic environment; however, the directors now anticipate an increase in customer applications due to the current economic instability, linked with the company's unique underwriting methodology.

The Company has strong levels of liquidity, supportive funding partners, a scalable platform and diversified routes to market, and is therefore very well positioned in the marketplace to continue creating financial inclusion by providing bespoke lending solutions to UK homeowners.

The Company will continue to invest in technology which will improve process efficiency for both new and existing customers.

DIRECTORS REPORT (CONTINUED)

DIVIDENDS

The Company did not pay a dividend during the financial year (prior year: nil), and no dividends are currently proposed.

ENVIROMENTAL, SOCIAL AND GOVERNANCE

Evolution Money Group has developed an ESG strategy underpinned by specific policies which include an Environment Policy, an Environmental Purchasing Policy, a Corporate Travel Policy, and a Code of Ethics.

The Company continues to be Certified by Green Small Business and will be undertaking their second carbon audit in September 2023. A comprehensive review of their suppliers has been undertaken to understand their own approach to ESG and Diversity. The Company continues to support two local charities, We Mind the Gap and Wood Street Mission both financially and through direct activities.

An impact report has been published which contains a balanced and comprehensive analysis of how the business is making a material positive effect on society and the environment, proportionate to its size and complexity. The report can be found here https://www.evolutionmoney.co.uk/impact.

FINANCIAL INSTRUMENT RISK

See the Note 11 for the directors' assessment of risks associated with the Group's financial instruments.

AUDITOR

A resolution for the reappointment of the auditor will be proposed at the next Annual General Meeting.

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

APPROVAL OF REDUCED DISCLOSURES

The Company, as a qualifying entity, has taken advantage of certain disclosure exemptions in FRS 102 paragraph 1.12. The Company's shareholders have been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received.

The Company also intends to take advantage of these exemptions in the financial statements to be issued in the following year. Further details of reduced disclosures can be found in note 1.

Approved by the Board of Directors and signed on behalf of the Board on 20 December 2023.

B Guvenc
Director
9 Portland Street
Manchester
M1 3BE

DIRECTOR'S RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EVOLUTION LENDING LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Evolution Lending Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EVOLUTION LENDING LIMITED (CONTINUED)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- We presume a risk of material misstatement due to fraud related to revenue recognition, specifically to the spreading of revenue over the behavioural life, rather than the contractual life as previously reported. To address the risk of fraud identified, we gained an understanding of the relevant controls, we challenged the policy revisions against the requirements of FRS 102, we reviewed the system code that generates managements behavioural curves, we formed an independent fee spreading model, and tested the accuracy and completeness of the underlying data, and
- We presume a risk of material misstatement due to fraud relating to loan loss provisioning, specifically the management overlay relating to the increased cost of living. To address the risk of fraud identified, we gained an understanding of the relevant controls, we challenged the key assumptions within the loan impairment model including those underpinning managements uplift for the increased cost of living, and we tested the completeness and accuracy of the relevant underlying loan data.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EVOLUTION LENDING LIMITED (CONTINUED)

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances
- of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing correspondence with the FCA.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Heaton

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, UK
20 December 2023

PROFIT AND LOSS ACCOUNT
Period ended 31 March 2023

	Note	31 Mar 23 £	31 Mar 22 (Restated) £
TURNOVER	3	29,324,833	20,736,839
Administrative expenses		(12,318,838)	(12,482,749)
OPERATING PROFIT		17,005,995	8,254,090
Interest payable and similar charges	5	(12,787,405)	(4,925,236)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	4,218,590	3,328,854
Tax due on profit on ordinary activities	7	(801,532)	(632,482)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,417,058	2,696,372

Company registration number: 06113307

All results are derived from continuing operations.

There are no recognised gains and losses for the current or preceding financial year, other than as stated above.

There is no other comprehensive income for the current or preceding financial year, as such no statement of other comprehensive income has been presented.

The accompanying notes are an integral part of these financial statements.

EVOLUTION LENDING LIMITED

BALANCE SHEET
Period ended 31 March 2023

	Note	31 Mar 23	31 Mar 22 (Restated)
		£	£
CURRENT ASSETS			
Debtors due after more than one year	8	165,483,856	118,244,580
Debtors due within one year	8	27,899,989	7,448,076
Cash at bank and in hand		2,465,205	489,649
		195,849,050	126,182,305
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(5,885,956)	(4,480,903)
NET CURRENT ASSETS		189,963,094	121,701,402
TOTAL ASSETS LESS CURRENT LIABILITIES		189,963,094	121,701,402
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	10	(172,559,488)	(105,433,568)
NET ASSETS EXCLUDING SHAREHOLDER LOAN NOTES		17,403,606	16,267,834
FINANCED BY:			
Creditors: Amounts falling due after more than one year	10	2,718,714	5,000,000
Called up share capital	12	10	10
Profit and loss account		14,684,882	11,267,824
CAPITAL EMPLOYED		17,403,606	16,267,834

Company registration number: 06113307

These financial statements were approved by the Board of Directors on 20 December 2023.

Signed on behalf of the Board of Directors

Ben Guvenc
Director

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Period ended 31 March 2023

	Share Capital and Premium	Profit and Loss	Total
	£	£	£
Balance at 01 April 2021 (as reported)	10	9,344,494	9,344,504
Impact of restatement (Note 13)		(773,042)	(773,042)
Balance at 01 April 2021 (restated)	10	8,571,452	8,571,462
Changes in equity			
Profit for the financial period (restated) (Note 13)	-	2,696,372	2,696,372
Balance at 31 March 2022 (restated)	10	11,267,824	11,267,834
Changes in equity			
Profit for the financial period	-	3,417,058	3,417,098
Balance at 31 March 2023	10	14,684,882	14,684,892

1. ACCOUNTING POLICIES

The principal accounting policies, all of which have been applied consistently throughout the current and preceding year are set out below:

General information and basis of accounting

Evolution Lending Limited (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

The financial statements are prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The prior year financial statements have been restated to reflect a change to the recognition of turnover relating to transaction costs. This approach moves away from the contractual basis of recognition to instead recognise turnover based on expected customer behaviour, as required by FRS102. In addition, interest is now accrued on a daily basis. For more information see note 13.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. These are the exemptions in relation to presentation of a cash flow statement and remuneration of key management personnel and other related party transactions within the group structure, as well as those relating to financial instruments.

The Directors have presented the balance sheet in line with the requirements of a Format 2, Capital Employed balance sheet as they believe that the presentation of subordinated loan notes as capital employed best reflects the financial position of the Company.

Going concern

As at 31 March 2023 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:-

- £7.8m of cash balances as at 31 March 2023
- Significant levels of headroom across both Senior and Mezzanine facilities
- Committed Private Securitisation warehouse with a final maturity date of July 2026, split between available and amortising periods, and access to total commitment of £280m.
- Stress built into budgets showing a profitable business with no cash required from shareholders and adequate debt facility headroom.

Having considered the impact of the points detailed above, including cash flow and liquidity requirements of the Company, and the company's forecasts which reflect the economic uncertainty arising from the increased cost of living, the directors expect that the business will continue for a period of at least twelve months from the date of approval of the financial statements and the company will be able to meet its liabilities as they fall due. Accordingly, the financial statements have been prepared on a going concern basis of accounting.

Arrangement with Evo Sec Funding 22 Ltd

The company sells receivables to Evo Sec Funding 22 Ltd, a special purpose vehicle created for the purposes of debt funding. The substance of the arrangement is such that Evolution Lending can extract any residual proceeds left in the SPV and holds the entire subordinated loan which absorbs any losses incurred on the securitised contracts, therefore Evolution Lending retains substantially all the risks and rewards of the underlying receivables sold to the Evo Sec Funding 22 Ltd. Evolution Money Limited is the primary servicer of Evolution Lending and is responsible for pursuing arrears and enforcing collateral security.

1. ACCOUNTING POLICIES (CONTINUED)

Arrangement with Evo Sec Funding 22 Ltd (continued)

Evolution Lending is exposed to the same level of variability in the amounts and timing of the net cash flows of the transferred assets as it was before the sale of the underlying receivables to Eco Sec Funding 22 Ltd. Therefore, Evolution Lending retains substantially all risks and rewards of ownership of the underlying receivables and therefore, continues to recognise the underlying receivables on its balance sheet.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business net of any applicable VAT. Turnover on customer receivables consists of interest and net customer fees. Net customer fees are the sum of upfront fees charged to each customer less any introduction commission or fees paid by the business. Interest and net fee income is incorporated into the total value of the loan and is spread over the expected life of the loan in line with the Effective Interest Rate ("EIR").

Financial Instruments

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

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The net loans and receivables are measured at amortised cost using the effective interest rate method. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, plus outstanding interest minus principal repayments, and minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability. The amount of impairment loss is calculated on a portfolio basis by reference to arrears stages.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Trade debtors and trade creditors are measured at undiscounted cost in accordance with FRS102 section 11.14, as these are due within one year.

Impairment of receivables

The Company regularly assesses whether there is evidence that financial assets are impaired. A loan is defined as defaulted if it is greater than 7 monthly contractual payments past due. Financial assets are impaired and impairment losses recognised if, and only if, there is objective evidence of impairment of one or more loss events that have occurred after the initial recognition of assets and prior to the reporting date and that have had an impact on the estimated future cash flows of the financial assets that can be reliably estimated. For loans and receivables, the amount of the loss is recognised as the difference between the loan's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. Impairment losses and any subsequent reversals are recognised in the income statement.

The business provides for customers in the 1-29dpd bucket based on the propensity for these accounts to flow through to charge-off in a 12month period. Due to the relatively low volume of customers that continue through to default from this position, the business considers the 1-29dpd bucket to be "technical" arrears and therefore attributes this to Incurred but not Reported (IBNR). Variances in roll rates after the balance sheet date will impact the level of impairment charges recognised.

1. ACCOUNTING POLICIES (CONTINUED)

Borrowing

Interest bearing loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an EIR basis in the profit and loss account over the term of such instruments at a constant rate on the carrying value.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and the laws that have been enacted or substantively enacted by the balance sheet date.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key sources of estimating uncertainty that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Key source of estimation uncertainty

a) Impairment of loan receivables

Determining whether loan receivables are impaired requires an estimation of the amount the Company expects to recover in future. The calculation requires the entity to estimate the future cash flows expected to arise from the loan book. The amount of impairment loss is calculated on a portfolio basis by reference to the most recent 12months performance data. This data is used to derive charge off roll rates which are then applied to individual loans to determine the level of impairment required.

A post model adjustment (PMA) has been made in the year-ended 31 March 2023, and the prior year, to estimate the impact of an uplift in losses due to the cost-of-living crisis. The basis of estimation was the same in both periods.

The provision for the period ending 31 March 2023 was £4.8m (£3.7m 2022 (restated)), which includes a PMA for the increased cost of living of £728k (£690k 2022).

The Company uses roll rates to charge off based on historic performance data to estimate the likelihood of a loan receivable becoming impaired. A 10% reduction in in roll rate estimates would decrease the impairment provision by £408k at 31 March 2023; conversely a 10% increase would result in an increase in the impairment allowance by £408K at 31 March 2023.

b) Amounts due from customers

Recognition of the customer fees added to the loan by customers relies on an estimation of the behavioural life of the loan, using historical data on settlements by time on book. The estimation is computed by considering the number of accounts open, by plan type, after 'n' number of months following origination. This expressed as a percentage of all loans originated after n months gives the proportion of the book still open and hence provides an estimate for the expected behavioural life of each loan in the portfolio

Critical judgements in applying the Company's accounting policies

a) Impairment of loan receivables

The calculation of loan impairment draws upon key judgements. This includes determining when a loan is deemed to be credit impaired, the timing of expected recoveries on impaired loans, and judging the appropriateness of assumptions where limited incurred loss data exists for the portfolio. Collateral held against each loan receivable is not considered when quantifying impairment as historic performance data demonstrates that this has not been a significant influencing factor.

b) Derecognition of loan receivables

The assessment of the recognition of receivables in Evolution Lending also involves critical judgments. The company sells receivables to Evo Sec Funding 22 Ltd, a special purpose vehicle created for the purposes of debt funding. The substance of the arrangement is such that Evolution Lending can extract any residual proceeds left in the SPV and holds the entire subordinated loan which absorbs any losses incurred on the securitised contracts. Evolution Lending retains substantially all the risks and rewards of the underlying receivables sold to the Evo Sec Funding 22 Ltd, therefore is judged not to meet the derecognition criteria and continues to recognise the underlying receivables on its balance sheet.

3. TURNOVER

	31 Mar 23	31 Mar 22 (Restated)
Interest income	28,207,154	20,736,839
Subordinated loan interest	1,117,679	-
	29,324,833	20,736,839

4. STAFF COSTS

The Company did not employ any staff directly in the current or prior year, but instead was a party to an originating and servicing agreement with a related party, Evolution Money Limited under which that Company provides administrative and marketing services. There were no Directors' emoluments for the year as the Directors were remunerated through Evolution Money Limited.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Bank interest	2,373,274	4,732,374
Deemed Loan Interest	10,215,635	-
Interest on loan note from parent company	198,496	192,862
	12,787,405	4,925,236

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

There were no audit fees/non audit fees for the year as these were borne and not recharged through Evolution Money Limited.

There are no operating lease commitments as these are paid through Evolution Money Limited.

7. TAXATION

Analysis of the tax charge

The tax due on the profit on ordinary activities for the year was as follows:

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Current tax due on profit on ordinary activities:		
UK Corporation Tax due	801,532	632,482
Total current tax due	801,532	632,482

Factors affecting the tax charge

The tax assessed for the year is different than the standard rate of corporation tax in the UK. The difference is explained below:

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Profit on ordinary activities before tax	4,218,590	3,328,854
corporation tax in the UK of 19% (to 31 Mar 2022: 19%)	801,532	632,482
Total tax charge for the period	801,532	632,482

The main rate of Corporation Tax rate for the financial year beginning 1 April 2022 was 19%.

On 3 March 2021, the Chancellor announced plans to increase the corporation tax rate from 19% to 25% with effect from 1 April 2023. The effect of the rate change on the recognised balance is not expected to be material.

8. DEBTORS

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Gross amounts receivable from secured loan customers	7,195,129	132,641,323
Gross amounts receivable from intercompany securitised contracts	178,035,945	-
Fee Liability	(3,711,991)	(3,227,659)
Subordinated Loan	16,602,751	-
Allowance for doubtful debts	(4,810,150)	(3,721,008)
Net amount receivable from secured loan customers	193,311,684	125,692,656
Amounts owed from group	72,161	-
	193,383,845	125,692,656

Included within amounts receivable is an amount of £165,483,856 (2022: £118,244,580) which is due after more than one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Period ended 31 March 2023

8. DEBTORS (CONTINUED)

Amounts receivable from secured loan customers are classified as loans and receivables and are therefore measured at amortised cost.

Business activity is funded using a special purpose vehicle, Evo Sec Funding 22 Ltd, which holds debt via a private warehouse. The Company sells receivables into the SPV for cash but substantially retains all the risks and rewards of the assets sold. The underlying receivables are therefore not derecognised and a deemed loan liability is held on the balance sheet of the Company to reflect the substance of the arrangement.

The amounts receivable under intercompany securitised contracts relate to the secured loan customers that have been sold into the SPV.

The fee liability relates to the customer fee charged in the loan set up which is capitalised and amortised according to the behavioural life of the loan.

Movement in the allowance for doubtful debts:

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Balance at the beginning of the period	3,721,008	4,589,557
Utilisation of prior year allowance	(3,142,552)	(2,297,702)
Net Impairment recognised in the year	4,231,694	1,473,272
Restatement of prior year	-	(44,119)
Balance at the end of the period	4,810,150	3,721,008

In determining the recoverability of a loan receivable, the Company considers any change in the credit quality of the loan receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The impairment charge for the year is included within administrative expenses.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Corporation tax	338,766	180,791
Amounts owed to group	3,686,313	3,948,829
Amounts owed to SPV	1,700,725	-
Accruals and deferred income	160,152	351,283
	5,885,956	4,480,903

10. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Revolving bank loans	-	105,636,537
Deemed Loan payable	174,078,338	-
Transaction cost prepayment	(1,518,850)	(202,969)
Loan notes	2,718,714	5,000,000
	175,278,202	110,433,568

The deemed loan and loan notes are repayable as follows:

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Deemed loan - Between two and five years	172,559,488	105,433,568
Loan notes from parent undertaking - Between two and five years	2,718,714	5,000,000

The deemed loan repayable represents the Company's liability under the arrangement it has to sell receivables into the SPV.

11. FINANCIAL INSTRUMENTS

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance.

The Company's overall strategy remains unchanged from 31 March 2022.

As part of the bank funding arrangement the Company is required to maintain a minimum tangible net worth and a minimum primary servicer available cash balance.

Categories of financial instruments

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Financial assets		
Cash and bank balances	2,465,205	489,649
Net Loans and receivables	193,311,684	125,692,656
Amounts owed from group	72,161	-
Financial Liabilities		
Bank Loan	-	105,433,568
Deemed Loan payable	174,078,338	-
Loan Notes	2,718,714	5,000,000

The Directors monitor and manage the financial risks relating to the operations of the Company. These risks include market risk, credit risk, liquidity risk and cash flow interest rate risk.

11. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates on its debt instruments that are linked to the Bank of England base rate. In order to reduce its exposure to this risk the Company continues to assess rates offered on loans made to customers taking into account anticipated changes in wholesale interest rates and the consumer credit environment. There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

The Company does not undertake transactions denominated in foreign currencies and is not exposed to any foreign currency risk.

Credit risk management

Credit risk refers to the risk that a customer will default on its contractual obligations resulting in financial loss to the Company. The Company has robust underwriting processes which minimise the risk of delinquency and sound collection processes to manage arrears, including forbearance where a customer demonstrates that they are unable to maintain full contractual payments.

Loan receivables consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of loans receivable.

The Company does not have any significant credit risk exposure to any single customer or any group of customers having similar characteristics. The Company defines customers as having similar characteristics if they are related entities.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk as no other credit enhancements are held.

Gross Loan Book Group	**31 Mar 23**	**31 Mar 22 (Restated)**
	£	**£**
Up to date	165,059,803	117,818,989
	165,059,803	**117,818,989**
Up to one month past due and impaired	6,030,471	4,615,718
Greater than one month past due and impaired	7,892,086	5,236,756
	178,982,360	**127,671,463**

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Directors, who have established an appropriate liquidity risk management framework for the management of the Company's short, medium, and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities, and borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Company may be required to pay

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Period ended 31 March 2023

11. FINANCIAL INSTRUMENTS (CONTINUED)

	1-3 years	3+ years	Total
	£	£	£
31 March 2022 (Restated)			
Bank loan	(105,433,568)	-	(105,433,568)
Loan Receivables	30,121,159	95,571,497	125,692,656
Loan notes from parent undertaking	(5,000,000)	-	(5,000,000)
	(80,312,409)	95,571,497	15,259,088
31 March 2023			
Deemed loan payable	(174,078,338)	-	(174,078,338)
Loan Receivables	56,936,451	136,375,233	193,311,684
Loan notes from parent undertaking	(2,718,714)	-	(2,718,714)
	(119,860,601)	136,375,233	16,514,632

12. CALLED UP SHARE CAPITAL

	31 Mar 23	31 Mar 22 (Restated)
	£	£
Allotted and called up:		
10 ordinary shares of £1 each	10	10

ULTIMATE CONTROLLING PARTY

The Company is a 100% subsidiary of Evolution Money Group Limited, a company under the control of T J O'Neill. The Company's results are included in the consolidated group accounts of Evolution Money Group Limited which are available to the public from Companies House, Crown Way, Cardiff. The Company has not disclosed those balances arising from transactions with Evolution Money Group Limited or its fellow 100% owned subsidiaries. The ultimate controlling party has the same address as the Company.

13. PRIOR YEAR RESTATEMENT – CHANGE IN ACCOUNTING ESTIMATES

Basis of change

The prior year financial statements have been restated to reflect a change to the recognition of turnover relating to transaction costs. This approach moves away from the contractual basis of recognition to instead recognize turnover based on expected customer behaviour, as required by FRS102.

Reconciliation of equity

	01 Apr 21
	£
Equity reported under old accounting policy	9,344,494
Adjustment to profit and loss reserves due to change in accounting policy	(773,042)
Equity restated	**8,571,452**

Reconciliation of consolidated profit and loss account

	Note	31 Mar 22
		£
PREVIOUSLY REPORTED PROFIT AFTER TAXATION		**2,741,419**
Adjustment to turnover	A	(61,132)
Adjustment to net impairment expense	B	5,518
Adjustment to corporation tax charge	C	10,567
RESTATED PROFIT AFTER TAXATION		**2,696,372**

Notes to consolidated profit and loss account reconciliation

A - The effect of moving to a behavioural basis of recognition of fee income, and the recognition of daily interest.
B - Net impairment has reduced as a result of the restatement of the carrying value of the receivables balance.
C - A reduction in profit before tax has reduced the tax charge for the period restated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Period ended 31 March 2023

13. PRIOR YEAR RESTATEMENT – CHANGE IN ACCOUNTING ESTIMATES (CONTINUED)

Reconciliation of consolidated balance sheet

	Note	31 Mar 22 £	Effect of Restatement £	31 Mar 22 (Restated) £
CURRENT ASSETS				
Debtors due after one year	A	117,911,225	333,355	118,244,580
Debtors due within one year	A	8,791,418	(1,343,342)	7,448,076
Cash at bank and in hand		489,649	-	489,649
		127,192,292	(1,009,987)	126,182,305
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	B	(4,672,801)	191,898	(4,480,903)
NET CURRENT ASSETS		122,519,491	(818,089)	121,701,402
TOTAL ASSETS LESS CURRENT LIABILITIES		122,519,491	(818,089)	121,701,402
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		(105,433,568)	-	(105,433,568)
NET ASSETS EXCLUDING SHAREHOLDER LOAN NOTES		17,085,923	(818,089)	16,267,834
CAPITAL AND RESERVES				
Creditors: Amounts falling due after more than one year		5,000,000	-	5,000,000
Called up share capital		10	-	10
Profit and loss account	C	12,085,913	(818,089)	11,267,824
CAPITAL EMPLOYED		17,085,923	(818,089)	16,267,834

Notes to consolidated balance sheet reconciliation

A - The effect of moving to a behavioural basis of recognition of fee income, the recognition of daily interest and the recognition of anticipated recoveries using a behavioural approach reduced the carrying value of amounts due from customers within one year and increased amounts due from customers due after one year. The total effect of the adjustment to the carrying value of amounts due from customers is a reduction of £1,010k.

B - The impact of the revised accounting estimate has resulted in the reduction in prior years' profit, which has ultimately reduced the corporation tax liability previously reported.

C - The net impact of the change in accounting policy reduced the opening profit and loss reserves in 2022 and changed the net profit in 2022 thus reducing the closing reserves by £818k.