

Premium Credit Limited
Annual report and Financial Statements
for the year ended 31 December 2015

Registered number 2015200

Premium Credit Limited

Annual report and Financial Statements for the year ended 31 December 2015

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Premium Credit Limited

Corporate information

Directors

C. Burke
P. Catterall
M. Crewe
C.D. Keogh
N.V. Kisnadwala
J. Reeve
A. Santospirito
T. Woolgrove
D. T. M Young

Company Secretary

J. Fitzpatrick

Registered office

Premium Credit House
60 East Street
Epsom
Surrey KT17 1HB

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2 RT

Premium Credit Limited

Strategic report for the year ended 31 December 2015

The directors present their Strategic report on the company for the year ended 31 December 2015.

Review of the business and future outlook

The principal activity of the company is the financing of insurance premiums and instalment services in the UK and Ireland. It is the leading third party insurance premium finance processing and payment facilitation company in the UK and Ireland, with market share of circa 60%. The company has 2.2 million customers (2014: 2.1 million) and achieved gross advances of £3.9 billion in the year (2014: £3.8 billion), processing 29.3 million direct debits (2014: 27.5 million).

During the year the company transitioned from UK Generally Accepted Accounting Principles (UK GAAP) to Financial Reporting Standard 101 - *Reduced Disclosure Framework* (FRS 101) and has taken advantage of the disclosure exemptions allowed under this standard as set out in note 1 to the financial statements. The company's ultimate parent undertaking, Pomegranate Topco Limited, was notified of and agreed to the transition to FRS101. Full details of the effect of transition in adopting FRS 101 are described in note 29.

The results show a profit for the financial year of £33.0 million (2014 restated: £29.2 million). Following the strong performance and after the payment of dividends of £23.5 million (2014: £10.0 million), shareholders' funds have increased to £168.2 million (2014: £159.2 million). The company has continued to deliver a solid credit performance, with a loss ratio for the year of 0.33% on average loans to customers (2014: 0.39%).

Change in ultimate controlling party

On 27 February 2015, GTCR LLP, the ultimate controlling party at 31 December 2014, disposed of its entire stake in Mizzen Topco SCA to the Fifth Cinven Fund ("Cinven") for an enterprise value of £462 million. Our ultimate controlling party is the Fifth Cinven Fund which is managed by Cinven Capital Management (V) General Partner Limited.

Following the acquisition by Cinven, a corporate restructuring was undertaken and the Board considers the ultimate parent undertaking to be Pomegranate Topco Limited, which is incorporated in Jersey.

Measurement and performance

Net advances for the year were £3.4 billion (2014: £3.3 billion) and the total of non-cancelled agreements at the year end was 2.2 million (2014: 2.1 million).

On 30 June 2015, the company's securitisation facility was extended to September 25, 2018 and amended by reducing the facility from £1.15 billion to £1.05 billion on the exit of Deutsche Bank. The existing securitisation facilities with other banks, namely Bank of America Merrill Lynch, Citigroup, Barclays Capital, Lloyds Banking Group, HSBC and Société Générale, remain. The securitisation SPV has ratings of "A+" by DBRS Inc and "Aa2" from Moody's.

The company's network consists of more than half the top 50 UK brokers and 3,000 intermediaries who arrange loans which enable customers (corporates and individuals) to pay insurance premiums and other contracts in instalments rather than an upfront lump sum. The company also provides instalment facilities for school fees and membership subscriptions.

The company's principal objective is to be the leading provider of instalment credit in its chosen markets. The company aims to achieve sustainable organic growth through offering new products and utilising new technologies, deepening its intermediary relationships and developing opportunities in new markets.

Premium Credit Limited

Strategic report for the year ended 31 December 2015 *(continued)*

Key Performance Indicators ("KPIs")

| | Description | 2015 | 2014 | Comment |
|-------------------------------|--|---------|---------|--|
| Net advances | Value of loans financed | £3,423m | £3,297m | An overall increase of 3.8% with increases across all lines of business |
| Loss ratio | Ratio of incurred losses to average loans to customers | 0.33% | 0.39% | A decrease of loss ratio by 0.06% |
| Non-cancelled agreements | New business and renewal agreements which are expected to complete to term | 2.203m | 2.135m | An increase of 3.2% due to a growth across all business lines. |
| Total Shareholders' funds | Equity | £168.2m | £159.2m | After a dividend payment of £23.5m, offset by the profit for the financial year. |
| No of direct debits processed | Number processed in the year | 29.3m | 27.5m | An increase of 6.5% due to increase in levels of advances. |

The above KPIs are used by the company's executive committee to monitor the performance of the company. The company achieved its target KPI's during the year.

Principal risks and uncertainties

The company manages a number of inherent business risks as detailed below:

i) Interest rate risk

The company's primary source of funding is a securitisation facility in a Special Purpose Vehicle ("SPV"), PCL Funding I Limited. PCL Funding I Limited issues Variable Funding Notes (VFNs) and Fixed Term Notes on which interest accrues on principal from the issue date and is payable in arrears on each settlement date. The rate of interest payable in respect of each interest period is variable from time to time and consists of the Interest Rate and Applicable Margin. The SPV has executed a fixed interest rate swap to manage variable interest rate risk.

ii) Credit risk

Credit risk is the risk of default on interest or principal repayments on the company's portfolio of loans and advances to customers. To mitigate this risk, the company requires credit checks on customers before loans and advances are disbursed and on renewal of loan facilities. Reliance is placed on a contractual right of recourse to the introducer or intermediary. Where there is no right of recourse, the type of insurance and the insurer is evaluated to determine the ability to recover premium in the event a loan is terminated. Also considered is the financial viability of borrowers where the return of premium may not be sufficient to cover any outstanding loan balance.

Premium Credit Limited

Strategic report for the year ended 31 December 2015 *(continued)*

iii) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its liabilities as they fall due. To mitigate this risk the company's working capital consists of a securitisation facility of £1,050 million (2014: £1,150 million) until September 2018. Working capital also includes the company's equity of £168m and a bank overdraft facility of £15m.

iv) Foreign Exchange rate risk

The company operates in Ireland as well as the UK and is exposed to foreign exchange rate risk arising from currency exposures. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities. The level of operations in Ireland in relation to the company as a whole is such that the foreign exchange risk is deemed to be acceptable. There are no policies in place to mitigate this risk.

v) Regulatory and compliance risks

On 1 April 2014, the regulation of consumer credit transferred from the Office of Fair Trading ("OFT") to the Financial Conduct Authority ("FCA"). Accordingly the company was granted interim permission to conduct consumer credit business. In 2015, an application was made to the FCA for full authorisation and the outcome of the FCA's review of the application is awaited. The company has a dedicated regulatory and compliance function with responsibility for assuring compliance with FCA regulations for consumer credit businesses.

vi) Operational risks

The company's operational risks include cyber security risk, fraud, people, taxation and technology. The risks are managed through a risk management framework.

Financial risk management

Risks are monitored and mitigated through a risk management framework which is underpinned by robust governance, policies, systems and processes. The Board of Directors is the key governance body for ensuring appropriate and effective risk management. The Board has delegated responsibility for day to day operations to the Chief Executive. The Chief Executive has established an Executive Committee and sub-Committees to manage the principal risks and uncertainties in the company's business.

Approved by the Board on ¹²July 2016 and signed on its behalf by:



Thomas Woolgrove
Director

Premium Credit Limited

Directors' report for the year ended 31 December 2015

The directors present their report and audited financial statements of the company for the year ended 31 December 2015.

Principal activities

The principal activity of the company is the financing of insurance premiums and instalment services in the UK and Ireland. The company is incorporated in England & Wales.

The sections covering the review of the business and future outlook, principal risks and uncertainties, and KPIs are covered within the strategic report.

Directors

The directors who were in office during the year and up to the date of signing the financial statements, unless otherwise stated, were:

| | | | |
|-----------------|------------------------------|----------------------|-----------------------------|
| J. Reeve | | C.D. Keogh | (appointed 28 October 2015) |
| D.T.M. Young | (appointed 11 January 2016) | N.V. Kisnadwala | (appointed 22 July 2015) |
| T. Woolgrove | (appointed 11 January 2016) | A.S. Doman | (resigned 17 December 2015) |
| P. Catterall | (appointed 27 February 2015) | L.C. Powers-Freeling | (resigned 28 October 2015) |
| M. Crewe | (appointed 27 February 2015) | M.S. Hollander | (resigned 27 February 2015) |
| A. Santospirito | (appointed 27 February 2015) | A.D. Cohen | (resigned 27 February 2015) |
| C. Burke | (appointed 5 March 2015) | C.E. Roche | (resigned 27 February 2015) |

Qualifying third-party and pension scheme indemnity provisions

During the financial year and up to the date of approving this report, the company maintained liability insurance and third-party indemnification provisions for its directors under which the company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the company and any of its associated companies. These indemnities are Qualifying Third-Party Indemnity Provisions as defined in Section 234 of the Companies Act 2006 and copies are available for inspection at the registered office of the company during business hours on any weekday except public holidays.

Results for the year

The results for the year are set out in the strategic report on page 2.

Dividends

On 25 February 2015, the directors declared and approved dividends of £23.5 million (2014: £10.0 million).

Employee activities

The directors seek to recruit people who are enthusiastic and focused on serving the company's clients and customers. The directors oversee a comprehensive range of education and development programmes to assist people in improving their technical and managerial skills.

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the

Premium Credit Limited

Directors' report for the year ended 31 December 2015 *(continued)*

part of all employees of the financial and economic factors affecting the company plays a major role in maintaining its performance. The company encourages the involvement of employees by means of regular bulletins and presentations.

Donations

During the year the company donated £7,745 (2014: £8,440) to charitable causes.

Post balance sheet event

There are no post balance sheet events to be disclosed.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic report, the Directors' 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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.

Statement of disclosure of information to auditors

Each person who is a director at the time of approval of the financial statements confirms the following:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the Board on ¹² July 2016 and signed on its behalf by:



Thomas Woolgrove
Director

Premium Credit Limited

Independent auditors' report to the members of Premium Credit Limited

Report on the financial statements

Our opinion

In our opinion, Premium Credit Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and loss account and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Premium Credit Limited

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

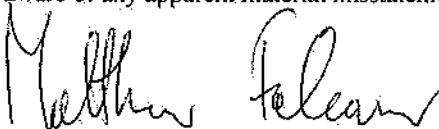
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Matthew Falconer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

13 July 2016

Premium Credit Limited

Profit and loss account for the year ended 31 December 2015

| | Note | 2015 | 2014 |
|--|------|---------------|---------------|
| | | £'000 | £'000 |
| Turnover | 4 | 126,231 | 118,278 |
| Administrative expenses | 5, 6 | (69,961) | (58,921) |
| Operating profit | | 56,270 | 59,357 |
| Interest receivable and similar income | 7 | 104 | 104 |
| Interest payable and similar charges | 8 | (23,051) | (29,228) |
| Profit on ordinary activities before taxation | 9 | 33,323 | 30,233 |
| Tax on profit on ordinary activities | 10 | (344) | (1,046) |
| Profit for the financial year | 23 | 32,979 | 29,187 |

There is no material difference between the above results and their historical cost equivalents.

Results relate to continuing operations.

Statement of comprehensive income for the year ended 31 December 2015

| | Note | 2015 | 2014 |
|--|------|---------------|---------------|
| | | £'000 | £'000 |
| Profit for the financial year | 23 | 32,979 | 29,187 |
| Items that may be subsequently reclassified to profit or loss | | | |
| Foreign currency translation loss | 23 | (500) | (166) |
| Other comprehensive income for the year | | (500) | (166) |
| Total comprehensive income for the financial year | | 32,479 | 29,021 |

Premium Credit Limited

Balance sheet as at 31 December 2015

| | Note | 2015 | | 2014 | |
|--|------|------------------|------------------|------------------|------------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed assets | | | | | |
| Intangible assets | 13 | | 5,072 | | 2,013 |
| Tangible assets | 14 | | 3,428 | | 3,342 |
| | | | <u>8,500</u> | | <u>5,355</u> |
| Current assets | | | | | |
| Debtors | 16 | 1,485,379 | | 1,415,309 | |
| Cash at bank and in hand | 17 | 30,408 | | 26,928 | |
| | | <u>1,515,787</u> | | <u>1,442,237</u> | |
| Creditors: amounts falling due within one year | 18 | (420,757) | | (403,016) | |
| Net current assets | | | <u>1,095,030</u> | | <u>1,039,221</u> |
| Total assets less current liabilities | | | <u>1,103,530</u> | | <u>1,044,576</u> |
| Creditors: amounts falling due after more than one year | 19 | (935,359) | | (885,395) | |
| Net assets | | | <u>168,171</u> | | <u>159,181</u> |
| Capital and reserves | | | | | |
| Called up share capital | 22 | | 10 | | 10 |
| Profit and loss account | 23 | | 168,161 | | 159,171 |
| Total shareholders' funds | 24 | | <u>168,171</u> | | <u>159,181</u> |

The financial statements on pages 9 to 31 were approved by the Board of Directors on 2 July 2016 and signed on its behalf by:

Thomas Woolgrove
Director

Premium Credit Limited

Statement of changes in equity for the year ended 31 December 2015

| | Called up Share capital | Profit and loss | Total Shareholders' Funds |
|--|-------------------------------|--------------------|---------------------------------|
| | £'000 | £'000 | £'000 |
| As at 1 January 2014 (as previously reported) | 10 | 142,517 | 142,527 |
| Effect of changes in accounting policies | - | (2,367) | (2,367) |
| Balance as at 1 January 2014 | 10 | 140,150 | 140,160 |
| Profit for the year | - | 29,505 | 29,505 |
| Effect of changes in accounting policies | - | (318) | (318) |
| Foreign currency translation differences | - | (166) | (166) |
| Total comprehensive income for the year | | 29,021 | 29,021 |
| Dividends to shareholders | - | (10,000) | (10,000) |
| At 31 December 2014 | 10 | 159,171 | 159,181 |
| Profit for the year | - | 32,979 | 32,979 |
| Foreign currency translation differences | - | (500) | (500) |
| Total comprehensive income for the year | | 32,479 | 32,479 |
| Dividends to shareholders | - | (23,489) | (23,489) |
| At 31 December 2015 | 10 | 168,161 | 168,171 |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015

1 General information

Premium Credit Limited ('the company') finances insurance premiums and facilitates instalment services in the UK and Ireland. The company is incorporated and domiciled in England and Wales.

Summary of significant accounting policies

A summary of the principal accounting policies, which have been applied consistently, is set out below:

Basis of preparation

The financial statements of Premium Credit Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

The Company has taken advantage of the exemption under s.400 of the Companies Act 2006 not to prepare group financial statements as it is a wholly owned subsidiary of Mizzen Mezzo Limited.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- (a) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based Payment*.
- (b) The requirements of IFRS 7 *Financial Instruments: Disclosures*.
- (c) The requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value Measurement*.
- (d) The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- (e) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*.
- (f) The requirements of IAS 7 *Statement of Cash Flows*.
- (g) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- (h) The requirements of paragraphs 17 of IAS 24 *Related Party Disclosures*.
- (i) The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- (j) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairment of Assets*, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

Principle accounting policies

Going concern

The directors have assessed the company's cashflow forecasts and considered the ability of the entity to operate as a going concern based on the conclusions drawn with respect to financial, interest rate, credit, liquidity, foreign exchange, regulatory and compliance, and operational risks, as outlined in the strategic report. As such, these financial statements have been prepared on the going concern basis.

Turnover and revenue recognition

Turnover represents finance charge income earned during the year net of commissions and other incentives payable. Turnover is predominantly derived from activities in the United Kingdom. The whole of the finance income of each finance agreement is recognised over the period of the underlying agreement using the effective interest rate methodology.

Interest receivable and payable

Interest receivable and payable are recognised in the profit and loss account on an accruals basis. Interest receivable represents amounts due from Vendcrowd Limited on intercompany loans and from interest on bank balances. Interest expense is the amount due on external finance. The interest costs incurred have been charged to the profit and loss account on an accruals basis.

Bad and doubtful debts

The Company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans and advances to customers which are carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

At 31 December 2015, gross loans and receivables totaled £1,450 million (2014: £1,380 million) and loan impairment provisions amounted to £3.8 million (2014: £2.7 million). The Company's loan impairment provisions are established on a portfolio basis taking into account the level of arrears, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates. These portfolios include receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy trends.

Intangible assets

Acquired intangible assets

Intangible assets that are acquired by the company are stated at historical cost less accumulated amortisation and any impairment losses. Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

- IT development and software 3 to 5 years

Internally generated intangible assets

Research costs are expensed as incurred. Expenditure incurred on the development of software is capitalised only if the following criteria are met:

- Technical feasibility has been demonstrated;
- The intention to complete development project (eg. allocated budgets and resources, Board of Directors approval);
- The ability to use or sell the results of the project;
- It is probable that the asset created will generate future economic benefits (eg. existence of the market for the results of the project);
- Adequate technical, financial or other resources to complete the development and to use or sell the software are available; and
- The development cost of the asset can be measured reliably.

Notes to the financial statements for the year ended 31 December 2015 (continued)

- Capitalised development costs 3 - 5 years

Investments in subsidiaries, associates and joint ventures are held at historical cost less any applicable provision for impairment.

Tangible assets are stated at cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recovered. All tangible fixed assets are depreciated on a straight-line basis by reference to their estimated useful life. This is a period of 3 to 5 years for vehicles and other equipment. Leasehold improvements are written off over the period of the lease.

The company participates in a defined contribution pension scheme operated by an independent fund manager. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the company.

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax in the future, with the following two exceptions:

- i) Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- ii) Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All monetary assets and liabilities expressed in foreign currencies are translated into Pounds Sterling at rates of exchange ruling at the end of the financial year. Differences between the translated transactions and subsequent cash settlements, or related translated balances, are taken to the profit and loss account.

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

The balance sheets for foreign operations are consolidated at the rate of exchange ruling at the balance sheet date. The profit and loss accounts are consolidated using the average rate for the year. The exchange differences arising on the retranslation of opening net assets are taken directly to reserves.

Cash flow statement

In the opinion of the directors, Pomegranate Topco Limited, a company incorporated in Jersey, is the ultimate parent company (see note 27). The largest company incorporated in the United Kingdom in which the company is consolidated as at 31 December 2015 is Mizzen Mezzco Limited. Accordingly, the cash flows of the company are included in the Mizzen Mezzco Limited consolidated cash flow statement and, under the provisions of FRS 101 "Reduced Disclosure Framework", the company is exempt from publishing a cash flow statement.

Cash at bank and in hand

Cash at bank is held in Sterling bank accounts in a Special Purpose Vehicle ('SPV') and in Sterling, Euro, US dollar bank accounts in PCL. There are three elements within cash balances consisting of pre-funding cash, encumbered cash and free cash. Pre-funding cash in the SPV is only available for the purposes of funding new assets. Encumbered cash of £16.8 million is included in the SPV and PCL Limited cash balances to reduce credit risk to loan note holders. Free cash is used for any other funding requirements, including those of group companies.

Operating leases

Leases, in which substantially all of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Operating lease costs are charged to the profit and loss account on a straight-line basis over the lease term.

Financial instruments

The company classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavorable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the company after the deduction of liabilities.

Financial liabilities

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The company does not hold any financial liabilities classified as held for trading.

Financial assets

The company classifies its financial assets in the following categories: at fair value through profit or loss (FVTPL), loans and receivables and available-for-sale (AFS). Management determines the classification of its financial instruments at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset. Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets held at FVTPL are recognised at fair value with any gains or losses included in the consolidated income statement in the period in which they arise. Transaction costs are expensed at the time of initial recognition. Derivative financial assets are classified as held for trading unless they are accounted for as an effective hedging instrument; such instruments are not separately categorised in the statement of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost using the effective interest method, less any impairment.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

substantially all of the risks and rewards of ownership have been transferred and the transfer qualifies for derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the company under securitisation is not derecognised because the company retains substantially all the risks and rewards on the basis of the predetermined repurchase price; therefore the criteria for derecognition are not met.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle a liability simultaneously.

Impairment of financial assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument(s) at initial recognition. Impairment losses are assessed individually for financial assets that are significant and collectively for assets that are not individually significant. In making the collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of currently observable data, to reflect the effects of current conditions.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent year the amount of the impairment loss reduces and the reduction can be related objectively to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

When a loan is deemed uncollectible it is written off against the related provision for loan impairment after all of the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and that are received from customers or other third parties are recognised directly in the consolidated income statement as a reduction in the loan impairment charge for the period.

Derivative financial instruments and hedge accounting

The company uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. The company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are initially recognised at fair value on the contract date and are remeasured at their fair value at subsequent reporting dates.

The fair value of interest rate swaps is the estimated amount that the company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date with the exception of goodwill.

2. Critical accounting estimates and judgments in applying accounting policies

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Company's principal accounting policies are set out above. United Kingdom company law and FRS require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgments and estimates that are reasonable and prudent. Where accounting standards are not specific and management have to choose a policy, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires them to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements. The judgments and assumptions involved in the Company's accounting policies that are considered to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

a) Loan impairment provisions

The Company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of customer loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The Company's loan impairment provisions are established on a portfolio basis taking into account the level of arrears, past loss experience and defaults based on portfolio trends. The most significant factor in establishing these provisions are the expected loss rates. These portfolios include receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy trends.

b) Effective interest rate

In calculating the effective interest rate of a financial instrument the company takes into account all amounts that are integral to the yield. In the case of loans and advances to customers, judgement is applied in estimating future cash flows. Judgement is also required in estimating the expected average life of customer debt balances. A change in the estimate of any of the key variables in this calculation could have the potential to significantly impact income recognised in the consolidated income statement.

c) Development costs

The company has capitalised internally generated intangible assets as required in accordance with IAS 38. Management has assessed expected contribution to be generated from these assets and deemed that no adjustment is required to the carrying value of the assets. Management consider it probable that software development activities in the course of construction will result in a deployable system. The recoverable amount of the assets has been determined based on value in use calculations which require the use of estimates and judgements. Management reviews the assets for impairment on a regular basis and deem that no impairment is required.

d) Impairment of assets

IFRS requires management to undertake an annual test for impairment of assets with indefinite lives, including goodwill and, for assets with finite lives, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the fair value less costs to sell or net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions have been made in respect of highly uncertain matters including management's expectations of growth and discount rates. Changing the assumptions selected by management could significantly affect the company's impairment evaluation and hence results. The company's review includes the key assumptions related to sensitivity in the cash flow projections.

e) Fair values estimation for financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The company carries derivative financial instruments at fair value with changes in fair value reported within the consolidated income statement.

Short term receivables and payables, deemed to be one year or less, are measured at original invoice amount.

3. Segmental reporting

The company operates in one class of business, namely the financing of insurance premiums and instalment services, and in one geographical area, Europe. Accordingly, a segmental analysis of the company's business is not provided.

4. Turnover

| | 2015 £'000 | 2014 £'000 |
|---|----------------|----------------|
| Gross collections | 235,948 | 219,838 |
| Less intermediary finance commission payments | (109,717) | (101,560) |
| | <u>126,231</u> | <u>118,278</u> |

The intermediary payments and finance commission relate to broker earnings collected by the company on behalf of brokers and intermediaries.

5. Administrative expenses

| | 2015 £'000 | 2014 £'000 |
|--------------------------------|---------------|---------------|
| Employee expenses (see note 6) | 28,016 | 20,638 |
| Other administrative expenses | 41,945 | 38,283 |
| | <u>69,961</u> | <u>58,921</u> |

Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

| | 2015 £'000 | 2014 £'000 |
|-----------------------------------|---------------|---------------|
| Audit of the financial statements | 315 | 266 |
| Audit assurance related services | 42 | - |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

6. Employee information

During 2015, the company employed all of the personnel (including directors) of the company. The average monthly number of employees (including executive directors) employed by the company during the year was 385 (2014: 357). All employees are engaged in the financing of insurance premiums and instalment services and are split into the following functions:

| | 2015 No. | 2014 No. |
|----------------------------|-------------|-------------|
| Operations | 176 | 175 |
| General and administration | 146 | 119 |
| Sales and marketing | 63 | 63 |
| | 385 | 357 |

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Employee expenses, including directors' emoluments: | | |
| Wages and salaries | 23,944 | 17,538 |
| Social security costs | 2,973 | 2,113 |
| Other pension costs | 1,099 | 987 |
| | 28,016 | 20,638 |

The company operates a defined contribution pension scheme on behalf of its qualifying employees. There were no outstanding or prepaid pension contributions at the balance sheet date.

| | 2015 £'000 | 2014 £'000 |
|----------------------------|---------------|---------------|
| Directors' emoluments | | |
| Aggregate emoluments | 1,310 | 774 |
| Payments in lieu of notice | 621 | - |
| Total emoluments | 1,931 | 774 |

No retirement benefits are accruing to directors (2014: £ nil) under the company's defined contribution pension scheme.

| | 2015 £'000 | 2014 £'000 |
|----------------------------|---------------|---------------|
| Highest paid director | | |
| Aggregate emoluments | 879 | 674 |
| Payments in lieu of notice | 621 | - |
| Total | 1,500 | 674 |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

7. Interest receivable and similar income

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Interest receivable from group undertakings | 104 | 104 |
| | 104 | 104 |

8. Interest payable and similar charges

| | 2015 £'000 | 2014 £'000 |
|------------------|---------------|---------------|
| Interest payable | 23,051 | 29,228 |
| | 23,051 | 29,228 |

LIBOR linked interest is payable to PCL Funding I Limited and then onto the securitising banks.

9. Profit on ordinary activities before taxation

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Profit on ordinary activities before taxation is stated after charging: | | |
| Operating lease rentals – plant and machinery (vehicles) | 264 | 322 |
| Depreciation charge on tangible fixed assets | 1,745 | 1,154 |
| Amortisation charge on intangible fixed assets | 226 | 12 |
| Impairment of loans and advances to customers | 5,582 | 5,258 |

10. Tax on profit on ordinary activities

(a) Analysis of tax in the year

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Current tax: | | |
| UK corporation tax on profit for the year | - | 2,560 |
| Double tax relief | - | (228) |
| Adjustments in respect of prior years | (472) | (1,516) |
| Current tax | (472) | 816 |
| Foreign tax | 327 | 228 |
| Total current tax | (145) | 1,044 |
| Deferred tax (note 11): | | |
| Origination and reversal of timing differences | 505 | (1) |
| Adjustment in respect of prior years | (16) | 3 |
| Total deferred tax (note 11) | 489 | 2 |
| Tax on profit on ordinary activities | 344 | 1,046 |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

The standard rate of corporation tax in the United Kingdom reduced from 21% to 20% on 1 April 2015, and through the enactment of the Finance (No. 2) Act 2015 on 18 November 2015, will reduce further to 19% from 1 April 2017 and 18% from 1 April 2020. The recent budget on 16 March 2016 proposed a change in the corporation tax rate to 17% which will have effect from 1 April 2020, however this proposed rate was not substantively enacted or enacted at balance sheet date. The company's profits for this accounting period are taxed at a hybrid tax rate of 20.25% (2014: 21.5%).

Under FRS 101 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Since the future reduction of corporation tax rate to 18% was enacted on 18 November 2015, the deferred tax balances at 31 December 2015 have been assessed accordingly.

(b) Factors affecting the tax charge for the current year

Factors affecting the total tax charge/ (credit) for the year are explained below:

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Profit on ordinary activities before taxation | 33,323 | 30,233 |
| Profit on ordinary activities before taxation multiplied by hybrid UK corporation tax rate of 20.25% (2014: 21.5%) | 6,747 | 6,500 |
| Effects of: | | |
| Adjustments in respect of prior years | (488) | (1,510) |
| Non deductible expenditure | 1,350 | 565 |
| Group relief | (7,313) | (4,503) |
| Rate change | 48 | (6) |
| Total tax | 344 | 1,046 |

11. Deferred taxation

Deferred tax included in the balance sheet is as follows:

| | 2015 £'000 | 2014 £'000 |
|----------------------------------|---------------|---------------|
| Accelerated capital allowances | 423 | 352 |
| FRS 101 transitional adjustments | - | 560 |
| Deferred tax asset (see note 16) | 423 | 912 |

Deferred tax movement for the year:

| | | |
|--|-------|-----|
| At 1 January | 912 | 914 |
| Deferred tax charge in respect of current year (note 10) | (457) | (5) |
| Adjustments in respect of prior period | 16 | (3) |
| Effect of rate change | (48) | 6 |
| At 31 December | 423 | 912 |

12. Dividends

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| On Ordinary shares | | |
| Declared and paid: £2,348.90p per £1 share (2014: £1,000 per £1 share) | 23,489 | 10,000 |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

13. Intangible assets

| | Assets under construction £'000 | Software £'000 | Total £'000 |
|---|--|-------------------|----------------|
| Cost | | | |
| At 1 January 2015 | 2,025 | 1,164 | 3,189 |
| Additions | 3,545 | - | 3,545 |
| Transfers | (1,739) | 1,739 | - |
| Disposals | - | (374) | (374) |
| At 31 December 2015 | 3,831 | 2,529 | 6,360 |
| Accumulated amortisation | | | |
| At 1 January 2015 | 12 | 1,164 | 1,176 |
| Transfers | (12) | 12 | - |
| Disposals | - | (114) | (114) |
| Amortised in year | - | 226 | 226 |
| At 31 December 2015 | - | 1,288 | 1,288 |
| Net book value at 31 December 2015 | 3,831 | 1,241 | 5,072 |
| Net book value at 31 December 2014 | 2,013 | - | 2,013 |

Assets under construction relate to internally developed software. The directors do not consider there to be any evidence of impairment of these assets.

14. Tangible assets

| | Vehicles and other equipment £'000 | Leasehold improvements £'000 | Total £'000 |
|---|---|------------------------------------|----------------|
| Cost | | | |
| At 1 January 2015 | 9,412 | 5,930 | 15,342 |
| Additions | 1,831 | - | 1,831 |
| At 31 December 2015 | 11,243 | 5,930 | 17,173 |
| Accumulated depreciation | | | |
| At 1 January 2015 | 6,536 | 5,464 | 12,000 |
| Charged in year | 1,411 | 334 | 1,745 |
| At 31 December 2015 | 7,947 | 5,798 | 13,745 |
| Net book value at 31 December 2015 | 3,296 | 132 | 3,428 |
| Net book value at 31 December 2014 | 2,876 | 466 | 3,342 |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

15. Investments

Subsidiary undertakings at 31 December 2015

| Name | Principal activity | Country of incorporation | Group Interest | Share Capital |
|--|--------------------|--------------------------|----------------|---------------|
| Direct Debit Management Services Limited | Dormant | UK | 100% | £2 |

The directors believe that the carrying value of the investment is supported by the underlying net assets.

16. Debtors

| | 2015 £'000 | 2014 £'000 |
|------------------------------------|------------------|------------------|
| Loans and advances to customers | 1,449,738 | 1,379,827 |
| Amounts owed by group undertakings | 27,310 | 27,355 |
| Other debtors | 2,840 | 500 |
| Corporation tax receivable | 819 | - |
| Deferred tax asset (note 11) | 423 | 912 |
| Prepayments and accrued income | 4,249 | 6,715 |
| | 1,485,379 | 1,415,309 |

Unearned income of £33.3 million (2014: £30.4 million) is netted off against loans and advances to customers. Loans and advances to customers are stated after deduction of a provision for irrecoverable debts. The provision at 31 December 2015 was £3.8 million (2014: £2.7 million).

Loans and advances to customers due after more than one year amount to £191,000 (2014: £227,000).

Amounts owed by group undertakings are unsecured. A loan of £7.2 million (2014: £10.4 million) was made to Vendcrown Limited which is repayable in October 2022 and earns interest at 1%. The remaining balance of £20.1 million (2014: £17 million) relates to expenses paid by PCL on behalf of group undertakings and is interest free and repayable on demand.

17. Cash at bank and in hand

| | 2015 £'000 | 2014 £'000 |
|--------------|---------------|---------------|
| Cash at bank | 30,408 | 26,928 |

18. Creditors: amounts falling due within one year

| | 2015 £'000 | 2014 £'000 |
|--|----------------|----------------|
| Trade creditors | 403,344 | 387,552 |
| Accruals and deferred income | 16,073 | 13,382 |
| Corporation tax | - | 93 |
| Other creditors | 288 | 1,345 |
| Taxation and other social security costs | 1,052 | 644 |
| | 420,757 | 403,016 |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

19. Creditors: amounts falling due after more than one year

| | 2015 £'000 | 2014 £'000 |
|----------------------------|---------------|---------------|
| Intercompany loans payable | 935,359 | 885,395 |

Intercompany balances with PCL Funding I Limited ('the SPV') arise on securitisation transactions, including the issue of securitisation notes. Securitisation notes are a source of variable rate funding provided to the company through the sterling denominated Variable Note Issuance Programme in the SPV. Notes are issued or redeemed in proportion to the increase or decrease in the portfolio of loans and advances to customers. The amounts owed to the SPV include drawdown by the company under the note issuance programme. At 31 December 2015, the value of the loans securitised as collateral for notes issued was £1,084 million (2014: £1,027 million). The interest rate payable is LIBOR linked.

20. Obligations under leases

Obligations under finance leases and hire purchase contracts

The company uses finance leases and hire purchase contracts to acquire plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

| | Land & Buildings | | Other | |
|----------------------------|------------------|---------------|---------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Within one year | 496 | - | 225 | 81 |
| Between one and five years | 176 | 620 | 129 | 189 |
| | 672 | 620 | 354 | 270 |

21. Capital commitments

Capital expenditure authorised and contracted for but not provided in the financial statements amounts to £nil (2014: £1.7 million).

22. Called up share capital

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| <i>Allotted and fully paid</i> | | |
| 10,000 ordinary shares of £1 each | 10 | 10 |
| Warrants on 10,000 ordinary shares of US \$1 each | - | - |
| | 10 | 10 |

On incorporation the company issued warrants on 10,000 ordinary shares of US\$0.01 each. The warrants are held by the registered shareholder of the ordinary shares of £1 each; they are exercisable into 10,000 ordinary shares of US\$1 each.

The warrant is currently securely held by the ultimate controlling party, "Cinven" (see page 2), for the benefit of Vendcrowd Limited.

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

23. Profit and loss account

| | 2015 £'000 | 2014 £'000 |
|---------------------------------------|---------------|---------------|
| At 1 January | 159,171 | 140,150 |
| Profit for the financial year | 32,979 | 29,187 |
| Foreign currency translation movement | (500) | (166) |
| Dividend paid (note 12) | (23,489) | (10,000) |
| At 31 December | 168,161 | 159,171 |

24. Reconciliation of the movements in shareholders' funds

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Opening shareholders' funds at 1 January | 159,181 | 140,160 |
| Profit for the financial year | 32,979 | 29,187 |
| Foreign currency translation movement | (500) | (166) |
| Dividend paid (note 12) | (23,489) | (10,000) |
| Closing shareholders' funds at 31 December | 168,171 | 159,181 |

25. Pension Commitments

Contributions to the defined contribution pension scheme during the year were £1.1 million (2014: £1.0 million). At year-end there were no outstanding or prepaid contributions (2014: £ nil).

26. Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with related parties.

27. Ultimate parent undertaking

The immediate parent undertaking is Vendcrown Limited.

The ultimate parent undertaking at 31 December 2015 is Pomegranate Topco Limited, a company incorporated in Jersey.

The Mizzen Mezzco Limited group is the smallest group of undertakings for which group financial statements are drawn up and of which the company is a member. The consolidated financial statements of Mizzen Mezzco Limited are available from Premium Credit House, 60 East Street, Epsom, Surrey KT17 1HB.

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

28. Post balance sheet events

There are no post balance sheet events to be disclosed.

29. Changes in accounting policies

In preparing its opening FRS 101 balance sheet, the company has adjusted amounts prepared in accordance with its old basis of accounting (UK GAAP) but which were not previously published at 31 December 2014. An explanation of how the transition from UK GAAP to FRS 101 has affected the company's financial position, financial performance, and cash flows is set out in the following tables and the notes that accompany the tables.

Profit and Loss Account

The impact of change in accounting policy on the Profit and Loss Account for the year ended 31 December 2014 is a decrease in turnover of £97,597 and an increase in administrative expenses of £300,444, resulting in a decrease in profit for the year of £398,041.

Equity

The impact of change in accounting policy on the statement of changes in equity is a decrease of £2,366,902 in respect of the year ended 31 December 2013, a decrease of £318,041 in respect of year ended 31 December 2014. A statement of changes in Equity may be found on page 11.

Balance Sheet

The impact of change in accounting policy on the Balance Sheet at 31 December 2013 and at 31 December 2014 may be found on pages 27 to 29.

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

Impact of change in accounting policy on the profit and loss

| | For the year ended 31 December 2014 | Adoption of FRS 101 | For the year ended 31 December 2014 as presented |
|--|--|---------------------------|--|
| | £'000 | £'000 | £'000 |
| Turnover | 118,376 | (98) | 118,278 |
| Administrative expenses | (58,621) | (300) | (58,921) |
| Operating profit | 59,755 | (398) | 59,357 |
| Interest receivable and similar income | 104 | - | 104 |
| Interest payable and similar charges | (29,228) | - | (29,228) |
| Profit on ordinary activities before taxation | 30,631 | (398) | 30,233 |
| Tax on profit on ordinary activities | (1,126) | 80 | (1,046) |
| Profit for the financial year | 29,505 | (318) | 29,187 |

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

Reconciliation of equity – changes to measurement

At 1 January 2014

| £'000 UK GAAP | Changes to measurement | Ref | £'000 Restated balance sheet using FRS 101 | |
|---|---------------------------|-----|---|---|
| Fixed Assets | | | | Fixed Assets |
| Intangible assets | - | | - | Intangible assets |
| Tangible assets | 1,052 | ai | 1,668 | Tangible assets |
| Investments | - | | - | Investments |
| Total Fixed assets | 1,052 | | 1,668 | Total Fixed assets |
| Current Assets | | | | Current Assets |
| Debtors | 1,331,448 | aj | 1,329,134 | Debtors |
| Cash at bank and in hand | 8,722 | | 8,722 | Cash at bank and in hand |
| Current assets | 1,340,170 | | 1,337,856 | Current assets |
| Creditors: amounts falling due within one year | (798,695) | ai | (799,364) | Creditors: amounts falling due within one year |
| Net current assets | 541,475 | | 538,492 | Net assets |
| Creditors: amounts falling due after more one year | (400,000) | | (400,000) | Creditors: amounts falling due after more one year |
| NET ASSETS | 142,527 | | 140,160 | NET ASSETS |
| Total shareholders' funds | | | | Equity |
| Called up share capital | (10) | | (10) | Called up share capital |
| Profit and loss account | (142,517) | | (140,150) | Profit and loss account |
| Total shareholders' equity | (142,527) | | (140,160) | Total shareholders' equity |

Reconciliation of equity – changes to measurement

Explanation of changes

- ai) Under previous UK GAAP, leases of land and buildings were treated as operating leases. IAS17 'Leases' requires that a lease be classified as a finance lease where the lease transfers all the risks and rewards incidental to ownership of an asset. Management has determined that the lease on head office premises meets the criteria for recognition as a finance lease.
- aj) Under previous UK GAAP, the Company applied the sum of digit methodology to calculate the amount of income recognised on financial assets and liabilities. IAS 39 'Financial instrument: recognition and measurement' requires that the effective interest rate methodology be utilised. The effect is to reduce debtors and turnover by £2,314 million.
- ai) Under previous UK GAAP, the Company did not account for the liability to employees arising from accrued holiday pay. IAS 19 'Employee benefits' requires the accrual of holiday pay where material. The effect is to increase Trade and Other Payables by £139,000 with a consequent reduction in Retained earnings. An adjustment of £530,000 has been made for the finance lease on land and buildings (refer paragraph (ai) above).

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Notes to the financial statements for the year ended 31 December 2015 (continued)

Reconciliation of equity – changes to measurement

At 31 December 2014

| £'000 UK GAAP | | Changes to presentation | Changes to measurement | Ref | £'000 Restated balance sheet using FRS 101 | |
|--|------------------|----------------------------|---------------------------|-------|---|--|
| Fixed Assets | | | | | | Fixed Assets |
| Intangible assets | 2,013 | | | | 2,013 | Intangible assets |
| Tangible assets | 2,967 | | 375 | aj | 3,342 | Tangible assets |
| Investments | - | | | | - | Investments |
| Total Fixed assets | 4,980 | | | | 5,355 | Total Fixed assets |
| Current Assets | | | | | | Current Assets |
| Debtors | 1,417,981 | | (2,672) | al | 1,415,309 | Debtors |
| Cash at bank and in hand | 26,928 | | | | 26,928 | Cash at bank and in hand |
| Current assets | 1,444,909 | | | | 1,442,237 | Current assets |
| Creditors: amounts falling due within one year | (888,023) | 485,395 | (388) | am/ak | (403,016) | Creditors: amounts falling due within one year |
| Net current assets | 556,886 | | | | 1,039,221 | Net assets |
| Creditors: amounts falling due after more one year | (400,000) | (485,395) | | ak | (885,395) | Creditors: amounts falling due after more one year |
| NET ASSETS | 161,866 | | | | 159,181 | NET ASSETS |
| Total shareholders' funds | | | | | | Equity |
| Called up share capital | (10) | | - | | (10) | Called up share capital |
| Profit and loss account | (161,856) | | 2,685 | | (159,171) | Profit and loss account |
| Total shareholders' equity | (161,866) | - | - | | (159,181) | Total shareholders' equity |

Reconciliation of equity – changes to measurement and presentation

Explanation of changes

- aj) Under previous UK GAAP, leases of land and buildings were treated as operating leases. IAS17 'Leases' requires that a lease be classified as a finance lease where the lease transfers all the risks and rewards incidental to ownership of an asset. Management has determined that the lease on head office premises meets the criteria for recognition as a finance lease. The effect is to increase Property, Plant and Equipment by a net £375,000.
- al) Under previous UK GAAP, the Company applied the sum of digit methodology to calculate the amount of income recognised on financial assets and liabilities. IAS 39 'Financial instrument: recognition and measurement' requires that the effective interest rate methodology be utilised. The effect is to reduce Debtors by £2,672,000.
- am) Under previous UK GAAP, the Company did not account for the liability to employees arising from accrued holiday pay. IAS 19 'Employee benefits' requires the accrual of holiday pay where material. The effect is to increase Trade and Other Payables by £177,000 with a consequent reduction in Retained earnings. An adjustment of £211,000 has been made for the finance lease on land and buildings.
- ak) All amounts drawn down under the Variable Note Issuance Programme in PCL Funding I Limited have been disclosed as amounts due after more than one year.

Premium Credit Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

30. Financial instruments

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IAS39.

a) Classification of financial instruments by IAS39 category

| At 31 December 2015 £'000 | Loans and receivables | Other financial instruments at amortised cost | Total |
|------------------------------------|--------------------------|---|------------------|
| Assets | | | |
| Cash and cash equivalents | 30,408 | - | 30,408 |
| Loans and advances to customers | 1,449,738 | - | 1,449,738 |
| Amounts owed by group undertakings | 27,310 | - | 27,310 |
| Total financial assets | 1,507,456 | - | 1,507,456 |
| Liabilities | | | |
| Intercompany loans payable | - | 935,359 | 935,359 |
| Total financial liabilities | - | 935,359 | 935,359 |

| At 31 December 2014 £'000 | Loans and receivables | Other financial instruments at amortised cost | Total |
|------------------------------------|--------------------------|---|------------------|
| Assets | | | |
| Cash and cash equivalents | 26,928 | - | 26,928 |
| Loans and advances to customers | 1,379,827 | - | 1,379,827 |
| Amounts owed by group undertakings | 27,355 | - | 27,355 |
| Total financial assets | 1,434,110 | - | 1,434,110 |
| Liabilities | | | |
| Intercompany loans payable | - | 885,395 | 885,395 |
| Total financial liabilities | - | 885,395 | 885,395 |

b) Fair values

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded on the Statement of Financial Position are approximately equal to their fair values.

| At 31 December 2015 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|------------------------------------|------------------|------------------|------------------|------------------|
| Assets: | | | | |
| Loans and advances to customers | - | 1,449,738 | - | 1,449,738 |
| Amounts owed by group undertakings | - | 27,310 | - | 27,310 |
| Total | - | 1,477,048 | - | 1,477,048 |
| Liabilities: | | | | |
| Intercompany loans payable | - | 935,359 | - | 935,359 |

| At 31 December 2014 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|------------------------------------|------------------|------------------|------------------|------------------|
| Assets: | | | | |
| Loans and advances to customers | - | 1,379,827 | - | 1,379,827 |
| Amounts owed by group undertakings | - | 27,355 | - | 27,355 |
| Total | - | 1,407,182 | - | 1,407,182 |
| Liabilities: | | | | |
| Intercompany loans payable | - | 885,395 | - | 885,395 |

There are three levels to the hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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Notes to the financial statements for the year ended 31 December 2015 *(continued)*

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31. Capital resources

It is the Company's policy to maintain a strong capital base, to expand such capital as appropriate and to utilise capital efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business.

The Company's objectives in managing capital are:

- To ensure that the Company has sufficient capital to meet its operational requirements and long-term strategic objectives;
- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for its stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as corporate bonds, or allow loans and receivables to mature. The Group is not subject to any externally imposed capital requirements.

| | 2015 £'000 | 2014 £'000 |
|--------------------------------------|----------------|----------------|
| Profit after tax for the year | 32,979 | 29,187 |
| Divided by: | | |
| Opening equity | 159,181 | 140,160 |
| Closing equity | 168,171 | 159,181 |
| Average equity | 163,676 | 149,670 |
| Return on equity | 20.1% | 19.5% |

The debt and equity amounts for the Company at 31 December 2015 and 31 December 2014 were as follows:

| | 2015 £'000 | 2014 £'000 |
|----------------------------------|------------------|------------------|
| Debt: | | |
| Intercompany loans | 935,359 | 885,395 |
| Less: unencumbered cash | (30,408) | (26,928) |
| Net debt | 904,951 | 858,467 |
| Equity | | |
| Total equity | 168,171 | 159,181 |
| Total net debt and equity | 1,073,122 | 1,017,648 |