# Premium Credit Limited

Annual Report and Financial Statements

for the year ended 31 December 2018

Registered Number: 2015200

# CONTENTS

# A: STRATEGIC REPORT

## A1: BUSINESS MODEL

Premium Credit Limited helps almost 2.1 million customers to manage their finances. The Company has a clear vision to be a trusted finance provider in our chosen markets.

**What we do**

The Company provides instalment finance via our network of intermediaries, to individuals, SMEs and companies in the UK and Ireland. Our intermediary network consists of firms, such as insurance brokers, insurance providers, membership organisations, schools and leisure facility providers.

**How we do it**

We provide loans ('advances') to our end-customers, which are used to pay annual insurance premiums, service fees such as school, professional membership, sports and leisure fees, or business fees and payments. These advances are recouped on a monthly instalment basis, usually within less than a year.

**Why we have been successful**

Our size and long operational history has allowed us to develop an advanced and scalable Information Technology system, which helps us to provide our intermediaries and other clients with funding propositions through regulatory compliant customer journeys. Our scale allows us to efficiently adapt our systems and processes to changes in regulation and customer expectations. We are able to service a high volume of payments and collect amounts outstanding on our advances on a reliable and continual basis. We work with a diverse network of approximately 2,800 leading brokers, insurers and other intermediaries who offer our financing products to end-customers. We have strong and resilient relationships with our intermediaries.

**Why what we do matters to people**

**End customers**

As the finances of people and businesses in the UK and Ireland are put under pressure due to the macro-economic and political environment, including Brexit uncertainty, and the continued evolution of a convenience-driven culture which is connected 24/7, our end customers are looking for alternative and accessible ways to finance large annual payments and manage their cashflows. These items include critical purchases such as insurance and large one-off business payments, in addition to finance of aspirational and leisure pursuits such as private school fees and golf club membership.

**Intermediaries**

By outsourcing this vital part of their operating model to us, a third-party finance company, our intermediaries deliver additional services to their customers and benefit from the improved efficiency in their own business models. Our experience and scale enable them to:

- reduce costs.
- improve their cash flow and liquidity.
- fulfil their regulatory obligations through our compliant customer journeys.

### How we generate income

Our income stream derives from a combination of interest income on amounts we have advanced to our customers and fees due for services we provide.

### Our market position

We are a UK leader in the financing and processing of instalment services. We have a strong position in the insurance industry, a sector that is characterised by stable and regular annual payments. We continue to use our experience to explore potential expansion into related and adjacent markets.

### Our Competitors

Our nearest competitors are other finance providers such as banks and non-bank credit providers. The Fintech era has seen a change in the way that people transact and purchase products, with new entrants occupying a niche position in several segments. However, investment in our IT systems and platforms has streamlined our operating model, enabling us to have much greater capacity to rapidly build bespoke, flexible new products and services. We also see some of the new entrants into the market as potential partners, which could increase the take up of our products.

### Our competitive advantage

Whilst there are other key players operating in the market, there are specific elements of our proposition which strongly differentiate the Company:

- Long term strategic partnerships – we are one of only two major providers in the instalment fee lending market in the insurance industry. We have long-established relationships and our expertise is highly valued as part of our overall service proposition, with 9 of our current top 10 intermediaries having worked with us for more than 10 years.

- Technology platform and integration – our Information Technology platform enables point of sale financing and is integrated with our intermediaries' businesses, which improves the efficiency of their operating model. Our system becomes an integral part of their payments processing. We are increasingly offering tools to enable end customers to self-serve, making transactions and servicing as simple as possible and enhancing our customer service.

- Scale and scalability – our efficient and accessible systems process nearly 25 million direct debit transactions in a year on behalf of over 2.1 million customers.

- Deep insurance industry and credit expertise – our financing solutions provide us with multiple layers of credit protection. Our credit loss rate in 2018 averaged 0.22% of our net advances in the year (2017: 0.20%). These loss rates are significantly lower and less volatile than other forms of consumer finance.

- Our innovation, investment in technology and marketing strategy have been critical in changing the way the market operates and maintaining our leading position within it, whilst diversifying our revenue streams through the targeting of additional high value segments.

## A2: PRINCIPAL RISKS AND MITIGATIONS

The principal risks to which the Company is exposed, which could significantly affect its prospects of success, are summarised below:

| **Regulatory and Conduct Risk– Fair Outcomes** | **Risk direction:** |
|---|---|
| **Description** | **Mitigation** |
| Conduct Risk is the risk that our operating model or those of our intermediaries might lead to unfair outcomes for our customers or we fail to appropriately remediate customers if we get it wrong. | The Company has a suite of policies focused on the fair treatment of customers. We have an Executive Risk Committee that receives details of all operational risk incidents that have affected customers, together with actions to address any unfairness. In addition, the Committee focuses on monitoring detailed metrics that measure results for customers.<br>Where any activities are identified that result in unfair customer outcomes, we are focused on ensuring that they are addressed as a matter of priority and that any adverse impact on the customer is promptly remedied. |
| | |
| **Regulatory and Conduct Risk– Regulatory** | **Risk direction:** |
| **Description** | **Mitigation** |
| The risk of loss arising from a breach of existing regulations, failure to implement changes relating to new legislation or regulation, or the imposition of adverse future regulatory changes in the markets the Company operates in. | The Company has Risk, Compliance and Legal teams that reviews key emerging regulatory developments to assess the impact on the Company. Expert third party advice is also sought where necessary. The level of regulatory change has markedly increased by both Regulators FCA/CBI, which is requiring additional drive and investment by the Company. The Compliance team has developed a formal monitoring plan which is reviewed by the Executive Risk Committee and approved by the Board Risk Committee. All employees are required to undertake regulatory training. |
| | |
| **Operational Risk – System and Process** | **Risk direction:** |
| **Description** | **Mitigation** |
| The risk of loss arising from inadequate or failed internal processes, systems and from arrangements with third parties. | The management of Operational Risk continues to be an area of on-going focus. Having migrated from legacy IT platforms, the focus is now on creating a 'best in class' platform providing a strong foundation for the future evolution of the business. To improve the overall control environment, the Company continues to make significant investment in development of risk management frameworks, systems and processes, including IT project management, implementation planning and cyber-risk management. An annual Internal Audit review plan is undertaken across a number of critical risk-based areas to provide assurance and monitoring oversight. |
| | |
| **Keys:** Increase Decrease No change | |

| | |
|---|---|
| **Operational Risk – Cyber** | **Risk direction:** |
| **Description** | **Mitigation** |
| Cyber security remains a key area of focus for the Company, particularly as the rate of technology-driven disruption, including the impact and severity of cyber attacks, continues to increase. The constant threat posed by a cyberattack also directly impacts the existing risks associated with external fraud, data loss, data integrity and data accessibility. | The Company continues to develop its capability to prevent, detect, respond and recover from any cyber threats or attacks. Significant effort continues to be focused on discharging the Company's cyber risk management responsibilities effectively, with ongoing investment in appropriate technology and processes. Company has also now setup a new cyber security function for ongoing monitoring of cyber risk. Ensuring that the staff continue to be 'cyber aware' is also a key element of Company's defence strategy. |
| **Operational Risk – People** | **Risk direction:** |
| **Description** | **Mitigation** |
| The risk of loss arising from manual errors, control failures or internal / external fraud. | The risk of loss arising from errors or fraud increases with high turnover and poorly trained staff. The Company seeks to reduce the turnover by attracting, retaining and developing staff through ongoing training and development. In addition, improvements in the control environment include focusing on reducing the reliance on key individuals through identification of alternative colleagues with similar skills and building repeatable processes which rely less on individuals and more on systems and identified controls. |
| **Operational Risk – External** | **Risk direction:** |
| The risk of loss arising from actions taken by or towards third parties with which the business interacts. | The Company continually reviews its risk management approach to intermediaries and outsource partners to reflect the regulatory environment in which the Company operates. |
| **Financial Risk - Interest Rate Risk** | **Risk direction:** |
| **Description** | **Mitigation** |
| The Company is exposed to the risk that interest rate changes may compromise its profitability. Specifically, the Company's net income is determined by the difference between the interest rates it lends at and those at which it borrows.<br>During a period of rising interest rates, the Company would expect to see some compression in its margins due to the timing difference between the repricing of the loans and advances to customers and its borrowings. | The Company has a treasury function responsible for day to day management and control of its exposure to interest rate risk. The Asset and Liability Committee monitors interest rate risk on a monthly basis and reports to the Executive Risk Committee monthly. The Company has the ability through contractual rate ratchets to reprice future lending in the event of rate rises. The Company's asset backed funding facilities are variable rate facilities. |
| | |
| **Financial Risk - Liquidity Risk** | **Risk direction:** |
| **Description** | **Mitigation** |
| The risk that the Company will have insufficient liquidity to fulfil its strategic lending targets and/or meet its financial obligations as they fall due. | The Company funds its activities through a securitisation facility under which a Master Trust funding platform provides access to public markets funding alongside its existing bank funders.<br>The Company has modelled the impact of a significant weakening of the British Pound to the Euro which could impact the level of securitisation borrowing and is confident that it does not carry a significant risk in its liquidity position. |
| **Keys: Increase Decrease No change** | |

| **Financial Risk - Foreign Exchange Risk** | **Risk direction:** |
|---|---|
| **Description** | **Mitigation** |
| 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, recognised assets and liabilities. | The level of operations in Ireland in relation to the Company is such that the foreign exchange risk is deemed to be acceptable. There are no hedges in place to mitigate this risk. The Company continues the monitor the uncertainty around UK withdrawal from the European Union and its impact on the foreign exchange risk. |

| **Credit Risk – Customer** | **Risk direction:** |
|---|---|
| **Description** | **Mitigation** |
| PCL provides finance to individuals, sole traders, partnerships and limited companies who typically wish to pay annual payments in monthly instalments. There is a risk that adverse changes in the macro economic environment or in the credit quality of our borrowers may result in additional impairment losses that could affect financial performance. | For our recourse products, Credit Risk is mitigated through the commercial arrangements that we have with our credit intermediaries. In circumstances where a borrower defaults with subsequent termination of the Credit Agreement, PCL will recover the, outstanding balance from the intermediary who introduced the borrower to PCL, through a deduction from commission payments.<br>For our non-recourse products, the Company has credit and affordability risk assessment / underwriting policies in place setting out detailed criteria for checks that must be undertaken before an advance is made. The credit risk function reports to the Executive Risk Committee and the Board Risk Committee on the performance of the Company's lending portfolios. In addition, the Company has rigorous and robust Collections and Recovery processes in place to manage arrears. The Credit Policy Manual was reviewed and updated in 2018, to further strengthen current processes and procedures within the credit risk function. |

| **Credit Risk - Counterparty** | **Risk direction:** |
|---|---|
| **Description** | **Mitigation** |
| The Company has a large number of commercial arrangements with credit intermediaries, who are the first point of contact when recourse borrowers default. These intermediaries may also be service providers to our borrowers, with the risk of high cancellations if services are no longer provided. In addition, for non-recourse lending we have commercial arrangements requiring commission payments to be paid before being collected from the borrower, or where advance finance commission payments are being made. These payments can cause an exposure whilst they are collected from the borrower for the duration of their loan. For recourse insurance premium finance, the Company is also exposed to the risk of insolvency of the underlying insurer in relation to higher cancellations or obtaining return premiums. | The Company operates a process of due diligence in relation to the intermediaries with whom it enters into trading relationships. Once a relationship is in place, there is a continuous monitoring programme that keeps the financial, regulatory and trading performance of our intermediaries under regular review. Where upfront payments are made, these are subject to a modelling exercise to determine the level of financial risk that we are prepared to accept from any given intermediary. For insurers, regular monitoring and evaluation of exposure and financial condition is undertaken, especially for unrated insurers. The credit risk policy was reviewed and updated in 2017 to more proactively identify and mitigate counterparty risk. |

**Keys: Increase** **Decrease** **No change**

| **Business Risk – Economic and Competition** | **Risk direction:** |
|---|---|
| **Description** | **Mitigation** |
| The risk of loss arising from the failure of the Company's strategy or management actions beyond the planning horizon. The business faces competition from other providers of insurance premium and service fees financing in the UK and Ireland, as well as from providers of alternative forms of credit. Deteriorating economic conditions may reduce demand for our advances or the products for which we provide advances, and this would materially and adversely affect our financial health and operational results. We depend on our network of intermediaries to sell advances, and any changes to our relationships with them could have similar consequences. | The Company has a strong record of operating successfully in its chosen markets throughout its over 29-year history, which it has achieved by continually improving its service proposition. The Company maintains strong relationships with its business intermediaries, customers and software house integrators. It is active in industry-wide groups that enable market trends to be identified and addressed. It also monitors competitors' products, pricing and positions to enable it to keep its own proposition under review.<br>The Group continues to monitor the uncertainty around the UK's withdrawal from the European Union and the further possibility of interest rate rises closely. By maintaining a strong financial and liquidity position we aim to be able to absorb any short-term economic downturns. |
| **Keys: Increase Decrease No change** | |

## A3: STRATEGY

The Company continued to generate significant returns in 2018 despite the various headwinds it faced in the year. The strategic planning processes of the business constantly evaluates new developments in the market and the Company's strategic objectives are revised accordingly.

**Our Earnings**

The majority of the Company's earnings originate from the financing of insurance premiums. Insurance is an essential product for many borrowers and is often a legal requirement. The business's point-of-sale lending services are highly integrated with its intermediaries' systems, resulting in efficient processing and servicing of it's customers transactions.

The Company has seen an increase in its costs as a result of additional regulatory compliance and rising funding costs. To mitigate the impact of these the business ensures it's cost recovery fees appropriately reflect the additional costs incurred whilst service charges are increased to maintain margins.

**Our Objectives**

The business's objectives are to:

1. **Develop and invest in products, service and innovative technology solutions which enable improved finance penetration, strong customer retention, compliant customer journeys, enhanced analytics and reduced distribution costs through increased integration and efficiency.**

The Company continues to invest in its client facing technology to both enhance the quality of the existing product set and develop new services. These enhancements make the organisation easier to do business with and encourage the roll out of its technology solutions across a wider intermediary base.

The Company's dynamic, scalable platforms provide bespoke service solutions whilst delivering against an ever-evolving regulatory environment, providing seamless compliant customer journeys.

The business's Specialist Lending division has launched a Non-Recourse school fee product which isolates schools from bad debt exposure, and has begun marketing a Tax funding product to existing insurance premium customers.

**2. Develop and grow relationships, which add value for our intermediaries and mutual customers.**

The Company's product distribution strategy is primarily intermediary led, delivering market reach alongside cost effective customer acquisition and retention. Its focus is on providing affordable instalment credit which helps individuals and businesses smooth their cash flows. The business believes its chosen markets offer strong margins and sustainable returns whilst being valued by its customers. Lending to a wide customer base means its credit risk is highly diversified.

The business manages, monitors and supports its intermediary partners, via a dedicated team of experienced relationship professionals, ensuring dealings with its mutual customers are ethical, comply with relevant regulatory requirements and are of a consistently high standard. In 2018, the business supported its intermediary partners with capability training, consultancy and marketing analytics, helping them to optimise their performance whilst preparing them for future regulatory and market developments in the industry. This dedicated support for our intermediaries is a key differentiator of the business versus its competitors.

In its Specialist Lending business, it has established an Appointed Representatives network for Schools, allowing marketing and promotion of its School Fee product.

**3. Enhance its Operational and IT service capability to improve efficiency and effectiveness, whilst delivering a stable and consistent customer experience.**

The Company has looked for ways to improve the consistency and reduce the operational cost of our servicing. It has implemented a new contact centre telephony platform which provides broader functionality via a better level of phone and email service at a reduced cost. It continues to work closely with external outsource partners for the provision of a customer contact centre, loan processing and IT development and run services. Customers are benefiting from updated self-service functionality, making it easier to sign credit agreements, express their marketing preferences and manage their agreements.

The Company has continued to invest in enhancing the functionality of its core loan administration system whilst; increasing system availability by reducing processing times and reducing run cost through the optimisation of interfaces with intermediaries' systems.

The implementation of customer satisfaction scoring through CSAT is allowing the business to measure the quality of its customer interactions and thereby developing best practice and enhancing customer outcomes.

**4. Create a strong risk and governance framework, which ensures fair outcomes for customers, complies with regulatory requirements and helps the Company's intermediaries to manage their legal and regulatory obligations.**

As a financial services institution, regulation is an ever-present factor in the Company's markets. The business's aim is to ensure that it grows at a sustainable rate and minimises any regulatory and conduct risk, both for itself, its intermediaries and retail customers.

Given the high number of customers it serves, the Company will continue to manage its business within its established compliance risk and governance framework and will continue to invest in strengthening its operational processes and controls to ensure fair outcomes for its customers.

In 2018 the Company continued to enhance its approach to affordability, implemented separate UK Credit Agreements for regulated and non-regulated business, along with other process and system changes required for General Data Protection Requirement (GDPR) compliance. As it implemented changes for the Fourth Money Laundering Directive, it has applied a risk based approach to enhanced due diligence and thresholds for AML checks. The Company is close to implementing the Central Credit Register regulatory requirements for Irish Business reporting, a mandatory requirement in Ireland and maintains an active dialogue with CBI to complete this to their satisfaction.

**5. To maintain a secure, diverse and stable funding structure.**

Funding is primarily provided by a £1,084.5 million (2017: £1,109.5 million) securitisation funding facility, which comprises £519.0 million of private banking funding and £565.5 million of public asset backed securities. As at 31 December 2018, £977.9 million was drawn down on this facility (2017: £1,005.2 million).

The Company's securitisation programme comprises a Master Trust (via PCL Asset Trustee Limited) which facilitates the issuance of term notes alongside the private banking facility (the "VFN Facility"). Public asset backed securities totalling £565.5 million were issued in 2017. The reinvestment period end date for the public facilities is June 2020 for £282.0 million and June 2021 for £283.5 million.

In June 2018, the business agreed the extension of the VFN facility issued by PCL Funding I Ltd until June 2021 and reduced the facility size to £519.0 million. The £519.0 million facility is divided into two tranches rated by Moody's and DBRS: £500.0 million Class A and £19.0 million Class B.

**6. Secure the most talented staff available in the market and to develop their capabilities.**

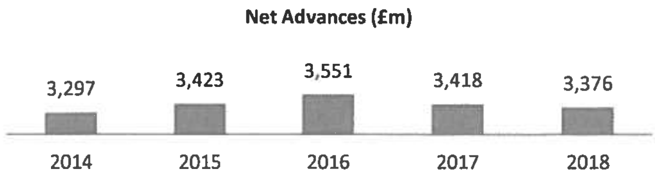
The wellbeing, engagement and development of the Company's employees is critical to its growth. The Company has continued to invest in its people during 2018 as it strives to create the conditions for colleagues to flourish. Tangible benefits are being realised through a reduction in voluntary employee turnover throughout 2018 with a significant reduction in the number of leavers.

The business operates a programme of regular colleague surveys, obtaining feedback which is driving its People plan, with the aim of making the organisation a great place to work and increasing the engagement and therefore performance of its employees. During 2018, there was noticeable improvement in colleague engagement. The programme it is now focused on making further improvements, especially in colleague empowerment and leadership capability.

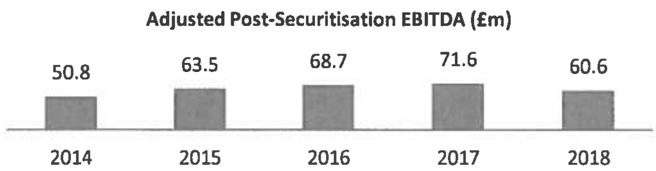
During 2018, the Company strengthened capabilities in a number of departments by bringing in colleagues with new skills or developing existing colleagues. Examples include sales, financial crime, risk, operations and IT. The business constantly reviews its people capabilities against its business strategy to ensure that it is well placed to deliver business performance.

# A4: KEY PERFORMANCE INDICATORS

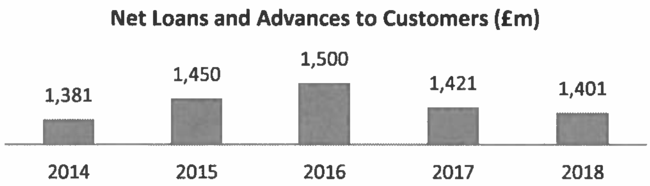
| Key Performance Indicator (KPI) | Description |
| --- | --- |



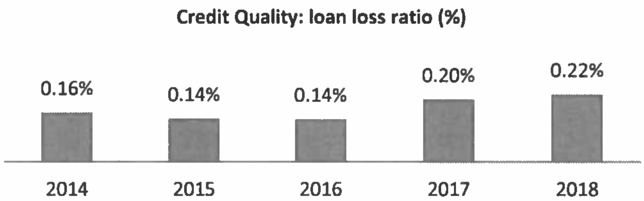

Net advances measures the total value of loans initiated, net of cancellations and mid- term adjustments. This is a lead indicator of future income that will be generated by the business.



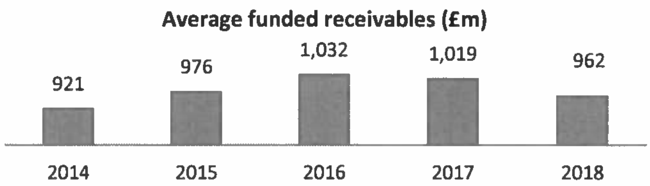

Adjusted Post-Securitisation EBITDA is a profit measurement that excludes certain non-cash items, one-off expenses, tax and interest, other than the interest costs incurred as part of the Company's securitisation facility.



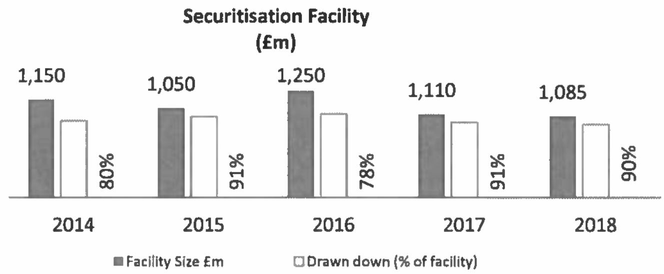

Net Loans and Advances to Customers measures the outstanding loan value at the balance sheet date. This is a lead indicator of future income and cash flows.



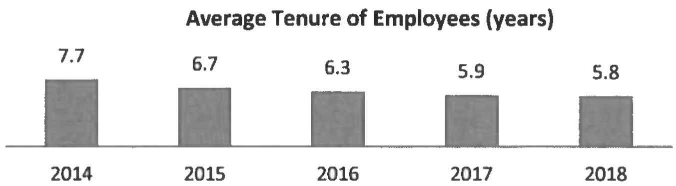

The loan loss ratio is calculated as the impairment loss on customer advances divided by the net advances in the year. It is a measure of the credit quality of the loan book.




Average funded receivables measures the average outstanding funded principal loan balances for the year. This is a lead indicator of future income and cash flows.



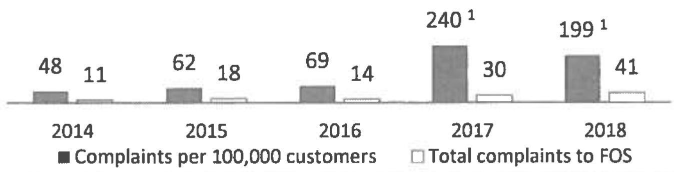

This measure shows the level of utilisation of the securitisation facility. It is a key measure of the availability of funding to facilitate growth in the loan book.




The average tenure of employees is a measure of the amount of colleague experience maintained within the organisation.

<table>
<tr><th>Key Performance Indicator (KPI)</th><th>Description</th></tr>
<tr><td>

**Customer Complaints**




</td><td>Reportable customer complaints per 100,000 loans written measures the level of complaints normalised for business volumes. This is supplemented by the total number of Reportable complaints made to the Financial Ombudsman (FOS).</td></tr>
</table>

1. Change in methodology to include written and oral complaints versus only written in 2016 and prior year. The 2017 number has been restated to reflect the changes.
2. A number of these measures are not specifically defined under, or presented in accordance with, IFRS or any other Generally Accepted Accounting Principles and should not be considered as an alternative to profit for the period or any other performance measures derived in accordance with IFRS. The Board believes that these measures give a more rounded indication of the operating performance of the Company.

# A5: BUSINESS REVIEW

## Financial review and KPI's

### Highlights

The Company's financial performance in 2018 was primarily impacted by loss of producers in 2017, short term business disruption due to Cyber incident, higher costs resulting from regulatory change and an increase in credit losses in line with increase in SME insolvency rates. The Company delivered an Adjusted Post-Securitisation EBITDA of £60.6 million, a decline of £11 million. Operating profit reduced by £14.8 million to £33.5 million. Key trading points for the year include:

- A decrease in net interest income of 7.7% to £93.9 million (2017: £101.7 million).
- An increase of 8.5% in administrative expenses to £71.4 million (2017: £65.8 million).
- A decrease in net loans and advances to customers by 1.4% to £1,400.7 million (2017: £1,420.7 million).
- A reduction in the size of the existing securitisation facility from £1,109.5 million to £1,084.5 million.

### Net Interest Income

The decrease in net interest income of 7.7% was due to a decrease in the average funded receivable balance of 5.6%, together with a short-term reduction in margins as a result of the increases in base rate in November 2017 and August 2018. The reduction in the average funded receivable balance was driven by regulatory and macro-economic changes in the markets in which the Company operates, and the impact of intermediary consolidation and broker losses seen in 2017. Normalising these items, the net advances in 2018 have seen continued strong underlying growth of 5.2% over prior year, highlighting the benefits the Company receives from the investments it has made in developing compliant digital customer journeys.

### Administrative expenses

Administrative expenses have increased by £5.6 million to £71.4 million (2017: £65.8 million). This is due to an increase in bad debt write off's and an increase in credit provisions of £3.7 million to £9.3 million (2017: £5.6 million). In addition, the Company incurred a one off expense of £2.8 million as a result of the Cyber incident in September 2018. The increase in credit losses is in line with the increase in corporate insolvencies in the wider economy.

### Operating profit

The decrease in net interest income alongside an increase in expenses has resulted in a reduction in Operating profit of £14.8 million to £33.5 million (2017: £48.3 million).

## Non-financial KPI's

### Average tenure of employees

The average tenure of employees measures the average length of service across the workforce. There has been a gradual reduction in average tenure of employees in recent years due to higher levels of labour turnover and changes to the organisation design to meet the changing needs of the business. We are pleased to report that the average tenure of 5.9 years has remained static from 2017 to 2018. Evolution of the organisation design has continued, for example outsourcing some operational functions, but the voluntary labour turnover has reduced progressively during 2018 resulting in greater levels of stability. Based on tenure at the end of 2018, there is a good mix of employees with long tenure, and therefore company experience, and newer colleagues who bring external skills to the Company.

**Customer complaints**

The Company maintains two key performance indicators for customer complaints: complaints it receives directly from customers, which is measured per 100,000 agreements and the number of complaints referred to the Financial Ombudsman Service (FOS). In 2018, the Company received 199 complaints per 100,000 agreements, a material decrease on the 2017 rate of 240 complaints per 100,000 agreements. 41 complaints were made to the FOS (0.002% of the customer base), of which 25 were upheld in favour of the Company, 5 in favour of the customer, with the remaining 11 awaiting outcome.

The Company remains focused on delivering fair outcomes for all customers and has introduced root cause analysis with corrective action tracking during 2018. This has led to the decrease in complaints highlighted above.

## Our People Future Outlook

I would like to thank all our colleagues who have contributed to making us the market leader that we are today, and for serving our intermediaries and customers. Our success and continued future growth is dependent on the commitment of our employees and our ability to develop outstanding products and services for our customers. Through our Colleague Opinion Survey, we continue to measure our colleagues' engagement and empowerment, which have both seen an improvement. We continue in making Premium Credit a great place to work. 2018 has continued to be a year of further change, but we can look ahead with confidence, knowing that we can build on this year's investments and innovations.

In 2019, we look forward to consolidating these changes and making progress towards our strategic aims. We remain confident that our strategy and our proven business model will continue to provide long term and sustainable value for our customers, employees, shareholders and intermediaries. We will pursue continued growth in our core markets, expanded relationships with new intermediaries and seek to exploit opportunities within adjacent, high value segments.

**On behalf of the board**

**Thomas Woolgrove**

**Director**

**29 April 2019**

# B: REPORT OF THE DIRECTORS

The Directors present their report and audited financial statements of the Company for the year ended 31 December 2018.

### Principal activities

The principal activity of the Company is the financing and processing 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, principal risks and uncertainties and KPIs are covered within the strategic report. The future outlook is covered in the financial review section.

### Directors

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

### Directors of Premium Credit Limited

| Name | Title |
|---|---|
| Colin Keogh | Chairman |
| Thomas Woolgrove | Director |
| John Reeve | Director |
| Peter Catterall | Director |
| Maxim Crewe | Director |
| Anthony Santospirito | Director |
| Chris Burke | Director |
| David Young | Director |
| Andrew Chapman | Director (appointed on 3 January 2019) |
| Nayan Kisnadwala | Director (resigned on 18 June 2018) |

### Directors' indemnity and liability insurance

As permitted by the Articles of Association, the Directors have the benefit of an indemnity, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently still in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

### Results

The results for the year are set out in the financial review on page 13.

### Dividends

The Directors paid dividends of £50.0 million during 2018, £20.0 million on 25 June 2018 and £30.0 million on 21 December 2018 (2017: £59.2 million).

**Financial Risk Management**

The principal risks, to which the Company is exposed, and mitigations are detailed in the strategic report on page 5.

**Employee Activities**

The Company recognises that its future success, as in the past, will depend on the loyalty and performance of its employees. The leadership team are committed to creating a culture in which employees are accountable for their work but are engaged and empowered to perform to the best of their abilities. The Company is committed to listening to and acting upon feedback from its employees.

Key people initiatives from 2018 include:

- At the beginning of 2018 a Communications Executive role was introduced. During 2018 there has been increased emphasis on internal and external communication. The impact on colleagues of improving communication has been noticeable and initiatives have included large scale colleague communication events, monthly Town Halls with the CEO, quarterly newsletters, and regular notes to celebrate achievements.

- A colleague engagement survey was conducted in June 2018 and 87% of employees responded. Employee engagement and employee enablement both improved by eight percentage points when compared to 2017. The greatest improvement was in employees' understanding of results expected and the Company's strategic priorities and goals, which improved by 21 percentage points. However, the results from the survey showed that there remains considerable opportunity when compared to general industry norms. Following the survey, the results were communicated to employees and a detailed action plan has been identified based on the survey feedback.

- The Company's management programme, which began in 2017, has continued to evolve and 70 managers or aspiring managers have now completed or are completing the programme. The benefits of the programme to the Company can be seen in the engagement survey results, for example there was an 18 percentage point improvement in employees receiving clear and regular feedback on their work performance. In addition, development activity is continuing with the senior leadership team and a teambuilding event was held at the end of the year to symbolise the importance of collaborating to advance growth and productivity.

- Another considerable improvement shown in employee feedback has been opportunities presented by the Company for learning and development. In 2018 a Masterclass programme was introduced to improve knowledge sharing across the Company. Over 500 attendees attended over 40 sessions encompassing a broad range of topics including the history of insurance and broking in the UK, systematic thinking and regulation. The programme also covered broader subjects such as mental health and wellbeing and soft skills such as presenting with confidence.

The Company seeks to operate as a responsible employer, whose corporate values promote standards designed to help employees conduct their business relationships. The Company's Code of Conduct was updated in 2018. It is the Company's policy to conduct business in an honest, open and ethical manner, and we have adopted policies governing equal opportunities and diversity, and health and safety. The Company categorically condemns all instances of bribery and corruption, harassment, bullying and discrimination.

The Company is committed to employment policies which follow best practice 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.

### Composition of the workforce

We have over 400 employees working in the UK and Ireland. We employ individuals with diverse backgrounds. The table below shows our gender diversity at year-end:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Men** | **Women** | Men | Women |
| The Board | 100% | - | 100% | - |
| Senior Management | 84% | 16% | 82% | 18% |
| Other Employees | 53% | 47% | 52% | 48% |
| **Total** | 54% | 46% | 54% | 46% |

### Equality and diversity

The Company is committed to promoting equality. Decisions about recruitment, selection, training, promotion or any other aspect relating to a person's employment with the Company are made regardless of gender, sexual orientation, disability, marital status, age, race, religious or political beliefs. During 2018 all employees attended training on Dignity at Work and Unconscious Bias. The training was well received and provoked thought and discussion amongst the workforce.

In April 2019, the Company published its second set of gender pay gap data. The table below shows the overall mean and median gender pay gap based on hourly rates of pay at the snapshot date (5 April 2018). It also captures the mean and median difference between bonuses paid to men and women in the year up to 5 April 2018, i.e for the 2017 performance year (bonuses are normally paid in February).

| | **Difference between men and women** | **Difference between men and women** |
|---|---|---|
| | **Mean** | **Median** |
| Hourly rate (this is a prescribed calculation based on fixed pay) | 43% | 43% |
| Bonus amount | 65% | 59% |

Note: The calculation behind the gender pay gap is not the same as equal pay.

The underlying reason behind the gender pay gap is predominantly due to the lower representation of women in senior leadership positions and IT roles within our business. The bonus gap is also affected by lower representation of women in sales roles. The Company is confident that it does not have any processes or practices which would see people being paid differently due to their gender.

The Company pays equal pay for equal work and therefore addressing the gender pay gap is about increasing the proportion of women in more highly paid roles. We are pleased to report that all four metrics have improved compared to 2017. The mean gender pay gap of hourly rate has reduced by 13%, the median gender pay gap of hourly rate has reduced by 3%, the mean bonus pay gap has reduced by 13% and the median bonus pay gap has reduced by 18%. The main factors driving this improvement have been increased tenure of women in the upper quartile and increased representation of women in upper middle quartile which has grown by 12%.

### Human Rights

The Company respects human rights as defined under the European Convention on Human Rights.

The Company published its statement on Modern Slavery during 2018 in accordance with the requirements of the Modern Slavery Act 2015. There have been no alleged breaches of the Modern Slavery Act during 2018.

### Health and safety policy

The Company's health and safety policy is designed to maintain a healthy and safe working environment, and to ensure the health, safety and welfare of all its employees and the general public. The Health and Safety Policy was updated during 2018. There were no significant incidents in the workplace during 2018.

### Employee relations

The Company seeks to operate as a responsible employer and has adopted corporate values to promote standards designed to help employees in their conduct with one another and business relationships. Policies in place support equal opportunities and diversity, health and safety, and anti-bribery and corruption.

It is the Company's policy to conduct business in an honest, open and ethical manner. A zero-tolerance approach is taken to bribery and corruption, harassment, bullying and discrimination.

The Company operates competitive reward and benefit programmes, offers appropriate training and personal development programmes, and encourages the recognition of outstanding performance. The Company embraces continuous development of individuals and teams and provides schemes to enable all staff to participate directly in the success of the Company.

Internal communications have been enhanced providing more detailed information and understanding for staff on the progress and development of the Company. Staff engagement has been increased through the establishment of staff social committees, run by the staff for the staff.

The Company has an established whistleblowing policy which enables employees to speak out when appropriate, and which ensures that no employee making such disclosure will suffer any consequent disadvantage. There were no whistleblowing incidents during the year 2018.

### Donations

During the year the Company donated £12,000 (2017: £9,229) to charitable causes.

### Post balance sheet events

There were no post balance sheet events.

### Statement of Directors' Responsibilities

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Statement of disclosure of information to auditors**

In the case of each director in office at the date the Directors' Report is approved:

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

Approved by the Board on 29 April 2019 and signed on its behalf by:

**On behalf of the board**

**Thomas Woolgrove**

**Director**

# *C1: Independent auditors' report to the members of Premium Credit Limited*

## Report on the audit of the financial statements

### Opinion

In our opinion, Premium Credit Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Strategic Report and Report of the Directors*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on pages 18-19, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

### *Auditors' 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 auditors' 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 auditors' report.

### *Use of this report*

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.

# Other required reporting

## Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Keith Harrington (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2019

# C2: INCOME STATEMENT

For the year ended 31 December 2018

| | Notes | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|---|
| Interest income | | **112,891** | 119,133 |
| Interest expense | | **(18,968)** | (17,467) |
| **Net interest income** | 5 | **93,923** | 101,666 |
| Fee and commission income | 6 | **14,973** | 16,188 |
| Fee and commission expense | 7 | **(4,067)** | (3,787) |
| **Total income** | | **104,829** | 114,067 |
| **Administrative expenses** | 8 | **(71,366)** | (65,782) |
| **Operating profit** | 8 | **33,463** | 48,285 |
| Finance income | 10 | **80** | 80 |
| **Profit before tax** | | **33,543** | 48,365 |
| Income tax expense | 11 | **(1,730)** | (4,419) |
| **Profit for the financial year** | | **31,813** | 43,946 |

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

Results relate to continuing operations.

# C3: STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Profit for the financial year | **31,813** | 43,946 |
| Other comprehensive income | | |
| Items that may subsequently be reclassified to the income statement: | | |
| Foreign currency translation gains | **379** | 730 |
| Other comprehensive income for the year | **379** | 730 |
| **Total comprehensive income for the year** | **32,192** | 44,676 |

# C4: BALANCE SHEET

As at 31 December 2018

| | Notes | 31 Dec 2018 £'000 | 31 Dec 2017 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 12 | **12,649** | 11,661 |
| Property, plant and equipment | 13 | **3,766** | 4,467 |
| Loans and advances to customers | 14 | **3,129** | 3,087 |
| Prepayments and other receivables | 15 | **9,241** | 10,853 |
| Deferred tax assets | 16 | **424** | 236 |
| **Total non-current assets** | | **29,209** | 30,304 |
| **Current assets** | | | |
| Loans and advances to customers | 14 | **1,397,547** | 1,417,609 |
| Prepayments and other receivables | 15 | **71,217** | 55,927 |
| Corporation tax receivable | | **1,438** | 1,579 |
| Cash and cash equivalents | 17 | **29,466** | 27,946 |
| **Total current assets** | | **1,499,668** | 1,503,061 |
| **Total assets** | | **1,528,877** | 1,533,365 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **1,364,426** | 1,351,003 |
| **Total current liabilities** | | **1,364,426** | 1,351,003 |
| **Total liabilities** | | **1,364,426** | 1,351,003 |
| **Equity** | | | |
| Called up share capital | 19 | **10** | 10 |
| Retained earnings | | **162,818** | 181,108 |
| Other reserves | | **1,623** | 1,244 |
| **Total shareholders' equity** | | **164,451** | 182,362 |
| **Total equity & liabilities** | | **1,528,877** | 1,533,365 |

The financial statements pages 22 to 50 were approved by the Board of Directors on 29 April 2019 and signed on its behalf by:

**Thomas Woolgrove**
**Director**

# C5: STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| £'000 | Notes | Called up Share Capital | Retained Earnings | Other Reserves | Total Equity |
|---|---|---|---|---|---|
| **A 1 January 2017** | | **10** | **196,312** | **514** | **196,836** |
| Profit for the financial year | | - | 43,946 | - | 43,946 |
| Foreign currency translation gains | | - | - | 730 | 730 |
| **Total comprehensive income for the year** | | - | 43,946 | 730 | 44,676 |
| Transactions with owners: | | | | | |
| Dividends paid | 20 | - | (59,150) | - | (59,150) |
| **At 31 December 2017 and 1 January 2018** | | **10** | **181,108** | **1,244** | **182,362** |
| Impact of adopting IFRS 9 (ECL) | | - | (128) | - | (128) |
| Impact of adopting IFRS 9 (Deferred tax on ECL) | | - | 25 | - | 25 |
| **Restated balance as at 1 January 2018** | | **10** | **181,005** | **1,244** | **182,259** |
| Profit for the financial year | | - | 31,813 | - | 31,813 |
| Foreign currency translation gains | | - | - | 379 | 379 |
| **Total comprehensive income for the year** | | - | 31,813 | 379 | 32,192 |
| Transactions with owners: | | | | | |
| Dividends paid | 20 | - | (50,000) | - | (50,000) |
| **At 31 December 2018** | | **10** | **162,818** | **1,623** | **164,451** |

# C6: NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Premium Credit Limited ('the Company') is a private limited company, limited by shares, that finances insurance premiums and facilitates instalment services in the UK and Ireland. The company is incorporated and domiciled in England and Wales.

## 2. ACCOUNTING POLICIES

The accounting policies and methods of computation are consistent with those applied in the 2017 Annual Report and Accounts with the exception of new accounting policies in respect of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue', which were both adopted on 1 January 2018.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment. IFRS9 has not had a significant impact on the Company. Details of the new accounting policies applied and its impact of transition to IFRS 9 can be found in note 2 (h) and (i).

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' as a comprehensive standard for revenue recognition. Financial instruments and other contractual rights or obligations within the scope of IFRS 9 are excluded from the scope of this standard. The Company assessed its non-interest revenue streams that fall under the scope of IFRS 15 and determined that there was no impact on the amount or timing of revenue to be recognised as a result of the adoption of IFRS 15. As such there is no adjustment to the opening balance of retained earnings or related tax balances. Furthermore, there is no impact to the statement of financial position or the statements of profit and loss and other comprehensive income.

A summary of the principal accounting policies is set out below.

### (a) 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, as applicable to companies using FRS101.

The preparation of financial statements in conformity with FRS 101 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 3.

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

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

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment.
- The requirements of IFRS 7 Financial Instruments: Disclosures.
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement.

- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    - Paragraph 79(a)(iv) of IAS 1;
    - Paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    - Paragraph 118(e) of IAS 38 Intangible Assets;
- 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.
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The requirements of paragraphs 17 of IAS 24 Related Party Disclosures.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Company.
- 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 Company in which the entity is consolidated.

**(b) Going concern**

The directors have assessed the company's cash flow forecasts and considered the ability of the entity to operate as a going concern for a period of at least 12 months from the date of approval of the financial statements, 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.

**(c) Net interest income recognition**

Interest income and expense for all financial instruments measured at amortised cost are recognised using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of recognising the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

**(d) Fee and commission income recognition**

Fees in respect of services are recognised on an accrual basis when the service to the customer has been provided. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is fixed and always determinable. The Company generates fees from the financing of insurance policies and other instalment services underwritten or delivered by third party insurers or suppliers.

This is based on fee rates that are independent of the profitability of the underlying insurance policies or fee plan.

### (e) Taxation

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:

1. 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

2. 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.

### (f) Foreign currency translation

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 income statement.

The balance sheets for foreign operations are consolidated at the rate of exchange ruling at the balance sheet date. The income statement 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.

### (g) Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks.

### (h) Financial instruments

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment.

The Company has adjusted its opening retained earnings to reflect the application of the new requirements of IFRS 9. In accordance with the transition requirements, comparative periods are not restated. The comparative periods in 2017 are reported under the requirements of IAS 39 and are not comparable to the information presented for 2018.

The policies for financial assets and impairment of financial assets have changed from 1 January 2018 following the adoption of IFRS 9; the revised policies are set out below.

**Financial assets**

Financial assets comprise cash and bank balances, loans and advances to customers and other receivables.

**Classification and measurement**

Financial assets are classified into one of three measurement categories:

(a) Amortised cost;

(b) fair value through other comprehensive income (FVOCI); or

(c) fair value through profit or loss (FVPL).

Classification is based on the objectives of the Company's business model for managing its financial assets and the contractual cash flow characteristics of the instruments.

*(a) Amortised cost*

Financial assets that are held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified at amortised cost. This category includes Company's loan portfolios and cash and bank balances within a "hold to collect" business model.

Financial assets at amortised cost are initially recognised at fair value, including direct and incremental transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method.

The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income is included in 'Interest income' using the effective interest rate method.

*(b) Fair value through other comprehensive income (FVOCI)*

Financial assets held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where contractual terms comprise solely payments of principal and interest are classified and measured at fair value through other comprehensive income (FVOCI).

Financial assets at FVOCI are initially measured at fair value, including direct and incremental transaction costs. Subsequent measurement is at fair value, with changes in fair value being recognised in other comprehensive income, with the exception of impairment gains or losses, interest income and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

On derecognition of a financial asset, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Fair value gains/losses on financial instruments

*(c) Fair value through profit or loss (FVTPL)*

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL on initial recognition and at each reporting date.

Any gain or loss on an asset that is subsequently measured at FVTPL, and is not part of a hedging relationship, is recognised in profit or loss and presented in the profit or loss statement within 'Fair value gains/losses on financial instruments'.

Interest income from these financial assets is included separately in 'Net Interest Income'.

### 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### Transition disclosures

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018:

| | Notes | Original classification under IAS39 | New classification under IFRS9 | Original carrying amount under IAS 39 as at 31 Dec 2017 (Audited) £'000 | New carrying amount under IFRS 9 as at 1 Jan 2018 (Unaudited) £'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | **17** | Loans and receivables | **Amortised Cost** | 27,946 | **27,946** |
| Loans and advances to customers | **14** | Loans and receivables | **Amortised Cost** | 1,420,696 | **1,420,653** |
| **Total financial assets** | | | | **1,448,642** | **1,448,599** |
| **Financial liabilities** | | | | | |
| Trade and other payables | **18** | Amortised Cost | **Amortised Cost** | 1,351,003 | **1,351,088** |
| **Total financial liabilities** | | | | **1,351,003** | **1,351,088** |

The following table sets out the impact of adopting IFRS 9 on the Balance Sheet carrying amounts and retained earnings as at 1 January 2018. Only balances impacted by the transition to IFRS 9 are included in the table; all other balances are unchanged.

| | IAS 39 carrying amount as at 31 Dec 2017 (audited) £'000 | Reclassification £'000 | Remeasurement £'000 | IFRS 9 carrying amount as at 1 Jan 2018 (unaudited) £'000 | Retained profits impact as at 1 Jan 2018 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Loans and advances to customers** | | | | | |
| Opening balance | 1,420,696 | - | - | 1,420,696 | - |
| Reclassification: | | 85 | - | 85 | - |
| Remeasurements: | | | | | |
| Expected credit loss | - | - | (128) | (128) | (128) |
| **Total loans and advances to customers** | **1,420,696** | **85** | **(128)** | **1,420,653** | **N/a** |
| **Deferred tax assets** | | | | | |
| Opening balance | 236 | - | - | 236 | - |
| Remeasurements: | | | | | |
| Expected credit loss | - | - | 25 | 25 | 25 |
| **Total deferred tax assets** | **236** | **-** | **25** | **261** | **25** |
| **Total change to assets** | **1,420,932** | **85** | **(103)** | **1,420,914** | **(103)** |
| **Liabilities** | | | | | |
| Trade and other payables | 1,351,003 | 85 | - | 1,351,088 | - |
| **Total change to liabilities** | **1,351,003** | **85** | **-** | **1,351,088** | **N/a** |
| **Equity** | | | | | |
| **Retained earnings** | | | | | |
| Opening balance | 181,108 | - | - | - | - |
| Remeasurements due to expected credit loss (after tax) | - | - | (103) | - | **(103)** |
| **Total retained earnings** | **181,108** | - | **(103)** | **181,005** | **(103)** |
| **Total change to equity** | **181,108** | **-** | **(103)** | **181,005** | **(103)** |

### (i) Impairment of financial assets (Expected Credit Loss)

The Company assesses all financial assets and off-balance sheet commitments for impairment at each reporting date. For the Company, this is primarily loans and advances to customers. Under IFRS 9 a 'three-stage' model for calculating Expected Credit Losses (ECL) is used, and is based on changes in credit quality since initial recognition as summarised below:

- **Stage 1:** When a financial asset is first recognised it is assigned to Stage 1. If there is no 'significant increase in credit risk' from initial recognition the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1 a '12-month ECL' is recognised.

- **Stage 2:** When a financial asset shows a 'significant increase in credit risk' from initial recognition it is moved to Stage 2. Stage 2 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 3. For financial assets in Stage 2 a 'lifetime ECL' is recognised.
- **Stage 3:** When there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit impaired, it is moved to Stage 3. For financial assets in Stage 3 a 'lifetime ECL' is recognised.

In relation to the above:

- **'Lifetime ECL'** is defined as ECLs that result from all possible default events over the expected life of a financial instrument.
- **'12-month ECL'** is defined as the portion of the lifetime ECL that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

On an ongoing basis, the Company assesses whether there has been a change in credit quality and where necessary financial assets are then moved through the stages accordingly as outlined below:

**Significant increase in credit risk assessment– movement to Stage 2:**

A 'significant increase in credit risk' (SICR) is not a defined term, and is determined by Management, based on their experience and judgement. The majority of Company's loans and advances are short term agreements of less than 12 months. Based on its historical experience of performance of those loans and due to its short-term exposure, it applies a conservative approach for measuring SICR, a principle called "one day one penny overdue" which means a loan account which is past due by 1 day is an indicator of significant increase in credit risk. Since the majority of Company's customers pay by direct debit and the loans are only for a short period, it believes that for a customer to miss a payment or to be in arrears, provides a strong indication of 'significant increase in credit risk' (excluding cases where the payment is delayed due to technical reasons). For recourse loans the Company has the right of automatic recovery from the intermediary and therefore, these loans remain in Stage 1.

**Default – movement to Stage 3:**

A financial asset will only be considered credit impaired if there is objective evidence of impairment, including financial assets that are defaulted or 90 days past due. Where a financial asset is classified as credit impaired it will be moved into Stage 3.

Advances are considered to be defaulted where the borrower is in breach of contract, is bankrupt, or experiences other significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the advance. The Company refers to these kinds of advances as "terminated agreement". In addition to the qualitative factors, the advances have to be at least 30 days past due to fall into termination category.

When advances are identified as credit impaired, interest income is calculated at amortised cost on the net carrying value of the loan (carrying value net of the impairment provision) in line with the requirements of IFRS 9.

**Improvement (movement back to a lower stage):**

The advances in Stage 2 are assumed to be cured when the payments are up to date. These accounts are no longer included as "one day one penny overdue" when the data is refreshed at month end.

The advances in Stage 3 do not cure as they are classed as "terminated agreements". Based on the Company's historical experience these loans do not cure from default status as the Company will have already started recovery procedures.

**Write off**

The Company writes off advances when they are 180 days past due.

**Calculation of Expected Credit Losses (ECLs)**

Nearly all the advances the Company writes have a term of less than 12 months. At 31 December 2018, 99.8% of the outstanding advances had a remaining life of 12 months or less. As a result of this the calculation methodology for the 12 months and life time ECL are broadly the same. The calculation is based on historical loss rates where each division's advances are analysed independently, and the average historical loss rate calculated based on the incurred loss data. The Company considers this to be the Probability of Default.

The Probability of Default is applied to balances in each Stage to derive the ECL.

Since the loans are mainly unsecured, the only factor that reduces the loss to the Company (loss given default) is when there are recourse arrangements with intermediaries (such as brokers and insurance companies). For recourse books, the ECL calculation also factors in any expected recoveries from intermediaries in case of a default by the customers. Theses recoveries are adjusted by any probability of failure of the intermediary themselves.

Due to the short term nature of the products offered by the Company, there is a weak correlation between the performance of the portfolio and macroeconomic lead indicators. As a result, the Company does not use multiple economic scenarios in assessing the Probability of Default at each impairment stage and expects the impact of this to be immaterial on overall impairment calculation.

**Transition disclosures**

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017, to, the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

| | | | | | Of which: | | |
|---|---|---|---|---|---|---|---|
| | IAS 39 closing balance as at 31 Dec 2017 (audited) £'000 | Remeas-urement £'000 | Reclassification £'000 | IFRS 9 opening balance as at 1 Jan 2018 (unaudited) £'000 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 |
| Impairment losses on loans and advances to customers | 4,481 | 128 | (85) | 4,524 | 3,128 | 394 | 1,002 |
| **Total provisions** | **4,481** | **128** | **(85)** | **4,524** | **3,128** | **394** | **1,002** |

### (j) 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.

### (k) Impairment of non-financial assets

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

### (l) Property, plant and equipment

**Owned assets**

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company. All other repairs and maintenance costs are charged to the income statement in the period in which they are incurred.

Depreciation is charged to the income statement on a straight-line basis so as to allocate the costs less residual value over their estimated useful lives. Depreciation commences on the date that the asset is brought into use. Work in Progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment. Estimated useful lives for property, plant and equipment are:

| | |
|---|---|
| Vehicles and equipment | 3 to 10 years |
| Leasehold improvements | 15 to 20 years |
| Leasehold offices | 15 to 20 years |

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in administrative expenses in the income statement.

**Leased assets**

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Property acquired via a finance lease is stated at an amount equal to the lower of its fair value and present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Leases, in which substantially all the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (m) 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.

**Assets under construction (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 is demonstrable (e.g. allocated budgets and resources, BOD approval);
- Management is satisfied with the ability to use or sell the results of the project;
- It is probable that the asset created will generate future economic benefits (e.g. 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.

Only the costs that are directly attributable to generating the intangible assets are capitalised.

The following costs are not capitalised: Operational, General and Administration overheads, annual software licences, training, legal and professional fees related to disputes with suppliers.

Following the initial recognition of impairment expenditure, the cost is amortised over the estimated useful lives of the assets created. Amortisation commences on the date that the asset is brought into use. As assets categorised as Assets under construction/Work in progress are brought into use the assets are transferred to the appropriate classification within intangible assets. The estimated useful lives for such assets is:

| | |
|---|---|
| Capitalised development costs/software | 3 to 5 years |

### (n) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

### (o) Provisions for liabilities and charges and contingent liabilities

A provision is recognised where there is a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expected expenditure required to settle the obligation. A contingent liability is a possible obligation that is dependent on the outcome of uncertain future events not wholly within the control of the Company, or a present obligation where an outflow of resources is not likely or the amount cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources is remote.

**(p) Share capital**

Ordinary shares are classified as equity. Preference shares may be classified as equity or debt regarding their characteristics.

**(q) Dividends**

Dividends paid are reported in equity in the period they are approved by the Company's Board.

**(r) Investments**

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

**(s) Pension Costs**

The Company participates in a defined contribution pension scheme operated by an independent fund manager. Contributions are charged to the income statement 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.

**(t) Future accounting pronouncements**

A number of new accounting standards and amendments to accounting standards have been issued by the IASB, which are not yet effective and have not been early adopted by the Company. These are set out below:

- *IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019).*

IFRS 16 eliminates the distinction between operating and finance leases that currently exists in IAS 17, with virtually all leases being recognised on balance sheet. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost.

The Company expects to adopt IFRS 16 using a modified retrospective approach where the cumulative effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated. The expected impact of implementation of the standard is an increase in assets of £6.4 million, an increase in liabilities of £6.4 million with no material impact on retained earnings.

- *IFRIC 23 - Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019).*

IFRIC 23 provides requirements that add to the requirements in IAS 12 (Income Taxes) by specifying how to reflect the effects of uncertainty in accounting for incomes taxes. The interpretation is to be applied to the determination of taxable profits (losses), tax bases, unused tax losses, unused tax credits and tax rates. This interpretation is not expected to have a material impact on the financial statements of the Company.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS 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 in this document. United Kingdom company law and FRS 101 require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements 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 judgements 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) Expected credit losses on financial assets**

The measurement of Expected Credit Losses (ECLs) prescribed by the new requirements of IFRS 9 requires a number of significant judgements. ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Specifically, judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

The calculation of ECLs and the associated areas of judgements and estimates are detailed in Note 2 (i).

**(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 has the potential to significantly impact income recognised in the income statement.

**(c) Development costs**

The Company has capitalised internally generated intangible assets as required in accordance with IAS 38. 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.

**(d) Impairment of assets**

FRS 101 requires management to undertake an annual test for impairment test 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.

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.

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

### (f) Other provisions

The nature and complexity of the Company's contractual arrangements can often mean uncertain positions arise as a result of its normal trading activities. A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate. Provisions are measured at management's best estimate of the expenditure required to settle the Company's liability. These estimates are reviewed each year and updated as necessary.

## 4. 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.

## 5. NET INTEREST INCOME

| | **2018**<br>**£'000** | 2017<br>£'000 |
|---|---|---|
| Interest receivable on: | | |
| Interest income on loans and advances to customers | 112,891 | 119,133 |
| **Interest income** | **112,891** | 119,133 |
| | | |
| Interest payable on: | | |
| Amounts owed to related party | (18,968) | (17,467) |
| **Interest expense** | **(18,968)** | (17,467) |
| | | |
| **Net interest income** | **93,923** | 101,666 |

Interest payable on amounts owed to related party is LIBOR linked interest payable to PCL Asset Trustee Limited, the special purpose securitisation vehicle.

## 6. FEE AND COMMISSION INCOME

| | **2018**<br>**£'000** | 2017<br>£'000 |
|---|---|---|
| Servicing and administration fees | 14,973 | 16,188 |
| **Fee and commission income** | **14,973** | 16,188 |

The costs associated with Servicing and administration fees income are primarily included in administrative expenses. See note 8 on page 39 for an analysis of the Company's administrative expenses.

## 7. FEE AND COMMISSION EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Fees and commission expense | 4,067 | 3,787 |
| **Fee and commission expense** | **4,067** | 3,787 |

## 8. OPERATING PROFIT

**Administrative Expenses**

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| **Staff costs:** | | |
| Wages and salaries | **21,951** | 22,021 |
| Social security costs | **3,342** | 2,704 |
| Other pension costs | **1,301** | 1,256 |
| **Total staff costs** | **26,594** | 25,981 |
| | | |
| **Non-staff costs:** | | |
| Other administration costs | **16,869** | 19,689 |
| IT related expenditure | **9,005** | 10,953 |
| Cyber incident costs* | **2,802** | - |
| Foreign currency loss/(gain) | **310** | (2,563) |
| Depreciation and amortisation | **6,472** | 6,142 |
| Impairment of loans and advances to customers | **9,314** | 5,580 |
| **Total non-staff costs** | **44,772** | 39,801 |
| | | |
| **Total administrative expenses** | **71,366** | 65,782 |

* Cyber incident costs represented non- recurring expenditure associated with responding to the Cyber incident in September 2018. The Company has made a claim against its cyber insurance policy. This insurance claim is in its initial phase and the expected recovery from it cannot be reliably measured at the date of approval of financial statements.

**Operating profit is stated after charging:**

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Operating lease rentals | **970** | 922 |
| Depreciation charge on tangible fixed assets | **1,192** | 2,233 |
| Amortisation charge on intangible fixed assets | **5,280** | 3,909 |
| Impairment of loans and advances to customers | **9,314** | 5,580 |
| IT related expenditure | **9,005** | 10,953 |
| Loss on disposal of assets | **665** | 40 |

### Impairments of loans and advances to customers

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Movement in expected credit losses/ impairment allowance | **1,899** | (1,370) |
| Amounts written off during the year as uncollectible, net of recoveries | **7,415** | 6,950 |
| **Impairment of loans and advances to customers** | **9,314** | 5,580 |

### Auditors' remuneration

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

| **Audit remuneration** | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Auditors' remuneration | **283** | 250 |
| Audit related services | **75** | 25 |
| Other | **-** | 22 |
| **Total auditors' remuneration** | **358** | 297 |

The above fees for audit services are borne by PCL and include all Pomegranate Topco Limited consolidated entities.

### Employees

During 2018, 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 410 (2017: 417). All employees are engaged in the financing of insurance premiums and instalment services and are split into the following functions:

| | 2018 Number | 2017 Number |
|---|---|---|
| Operations | **162** | 172 |
| General and administration | **165** | 168 |
| Sales and marketing | **83** | 77 |
| **Average monthly number of employees** | **410** | 417 |

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.

No retirement benefits are accruing to directors (2017: £nil) under the Company's defined contribution pension scheme.

## 9. DIRECTORS' EMOLUMENTS

The remuneration of the Directors paid by the Company during the year was as follows:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Aggregate emoluments | 2,022 | 1,595 |
| **Total emoluments** | **2,022** | 1,595 |

The total emoluments of the highest paid Director were £0.9 million (2017: £0.7 million).

## 10. FINANCE INCOME

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Amounts owed by related party | 80 | 80 |
| **Financing income** | **80** | 80 |

## 11. INCOME TAX EXPENSE

**Income tax expense**

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Current tax expense - current year | **1,427** | 2,385 |
| Current tax (credit)/expense - prior year | **(126)** | 1,038 |
| **Total current tax** | **1,301** | 3,423 |
| | | |
| Deferred tax credit - current year | **(111)** | (276) |
| Deferred tax (credit)/expense - prior year | **(52)** | 511 |
| **Total deferred tax** | **(163)** | 235 |
| | | |
| Foreign tax | **592** | 761 |
| **Total foreign tax** | **592** | 761 |
| | | |
| **Total tax expense** | **1,730** | 4,419 |

The Finance Act 2015 reduced the future rate of UK corporation tax from 20% to 19% with effect from 1 April 2017. Furthermore, the Finance Act 2016, following its enactment in September 2016, reduced the future rate further to 17% with effect from 1 April 2020. The company's profits for this accounting period are taxed at the applicable rate of 19.00% (2017: 19.25%).

The difference is explained below:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Profit before taxation** | **33,543** | 48,365 |
| Profit on ordinary activities multiplied by tax rate in the UK of 19% (2017: 19.25%) | **6,373** | 9,310 |
| | | |
| **Factors affecting expense for the year:** | | |
| Tax exempt income | **(42)** | (88) |
| Expenses not deductible for tax purposes | **277** | 209 |
| Adjustment to prior years – current tax | **(126)** | 1,038 |
| Adjustment to prior years – deferred tax | **(52)** | 511 |
| Effects of rate change | **17** | 33 |
| Double tax relief | **(592)** | (666) |
| Overseas tax | **592** | 761 |
| Effect of group relief | **(4,717)** | (6,689) |
| Other tax adjustments | - | - |
| **Total tax expense** | **1,730** | 4,419 |

## 12. INTANGIBLE ASSETS

| | **Assets under construction £'000** | **Software £'000** | **Total £'000** |
|---|---|---|---|
| **Net carrying value at 31 December 2017** | **1,481** | **10,180** | **11,661** |
| | | | |
| **Cost** | | | |
| **At 1 January 2018** | **1,481** | **17,058** | **18,539** |
| Additions | 6,057 | 855 | 6,912 |
| Transfers | (816) | 816 | - |
| Disposal | (635) | (385) | (1,020) |
| **At 31 December 2018** | **6,087** | **18,344** | **24,431** |
| | | | |
| **Accumulated amortisation** | | | |
| **At 1 January 2018** | - | **6,878** | **6,878** |
| Charge for the year | - | 5,281 | 5,281 |
| Disposal | - | (377) | (377) |
| **At 31 December 2018** | - | **11,782** | **11,782** |
| **Net carrying value at 31 December 2018** | **6,087** | **6,562** | **12,649** |

Assets under construction relate to internally developed software. The Directors have reviewed the assets for impairment and identified £nil million of assets which are impaired (2017: £nil million).

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements £'000 | Vehicles and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Net carrying value at 31 December 2017** | **2,593** | **1,874** | **4,467** |
| **Cost** | | | |
| **At 1 January 2018** | **2,872** | **4,938** | **7,810** |
| Additions | - | 513 | 513 |
| Disposals | - | (124) | (124) |
| **At 31 December 2018** | **2,872** | **5,327** | **8,199** |
| **Accumulated depreciation** | | | |
| **At 1 January 2018** | **279** | **3,064** | **3,343** |
| Charge for the year | 287 | 905 | 1,192 |
| Disposals | - | (102) | (102) |
| **At 31 December 2018** | **566** | **3,867** | **4,433** |
| **Net carrying value at 31 December 2018** | **2,306** | **1,460** | **3,766** |

## 14. LOANS AND ADVANCES TO CUSTOMERS

| | **31 Dec 2018 £'000** | 31 Dec 2017 £'000 |
|---|---|---|
| Gross loans and advances to customers | **1,407,099** | 1,425,177 |
| Less: allowance for impairment | **(6,423)** | (4,481) |
| **Net loans and advances to customers** | **1,400,676** | 1,420,696 |
| **Split as:** | | |
| Current | **1,397,547** | 1,417,609 |
| Non-current | **3,129** | 3,087 |

At 31 December 2018, £1,033.9 million (2017: £1,045.0 million) of the loan and advances to customers had its beneficial interest assigned to SPV entities as a collateral for securitisation transactions.

The following table shows impairment provisions for loans and advances:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| At 1 January | **4,481** | 5,837 |
| Reclassification | **(85)** | - |
| Impact of adopting IFRS 9 on opening balance | **128** | - |
| **Revised 1 January** | **4,524** | 5,837 |
| Charge for impairment losses | **1,899** | - |
| Foreign exchange impact | - | 14 |
| Increase/(decrease) in allowance, net of recoveries, charged to income statement | - | (1,370) |
| **At 31 December** | **6,423** | 4,481 |

The table below shows stage allocation of Company's loans and advances, allowance for expected credit losses (ECLs) together with ECL coverage ratio:

| **At 31 December 2018** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Loans and advances to customers (£ '000) | **1,396,336** | **5,647** | **5,116** | **1,407,099** |
| Allowance for ECLs (£ '000) | **4,057** | **482** | **1,884** | **6,423** |
| Coverage ratio (%) | **0.3%** | **8.5%** | **36.8%** | **0.5%** |

| **At 1 January 2018** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Loans and advances to customers (£ '000) | 1,414,032 | 6,644 | 4,501 | 1,425,177 |
| Allowance for ECLs (£ '000) | 3,128 | 394 | 1,002 | 4,524 |
| Coverage ratio (%) | 0.2% | 5.9% | 22.3% | 0.3% |

## 15. PREPAYMENTS AND OTHER RECEIVABLES

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Amounts due from Group undertakings | **68,736** | 55,965 |
| Other receivable | - | - |
| Prepayments and accrued income | **11,722** | 10,815 |
| **Prepayments and other receivables** | **80,458** | 66,780 |
| | | |
| **Split as:** | | |
| Current | 71,217 | 55,927 |
| Non-current | 9,241 | 10,853 |

Amounts owed by Group undertakings are unsecured. A loan of £7.6 million (2017: £7.6 million) was made to Vendcrown Limited which is repayable in October 2022 and earns interest at 1% of £0.5 million (2017: £0.4 million). The remaining balance of £60.6 million (2017: £48.4 million) relates principally to expenses paid by PCL on behalf of related parties and is interest free and repayable on demand.

Prepayments and accrued income of £11.7 million (2017: £10.8 million) include £2.6 million (2017: £3.8 million) of fees relating to the Master Trust which are amortised over 5 years and £0.5 million of fees relating to undrawn facilities.

## 16. DEFERRED TAX ASSET

Deferred tax included in the balance sheet is as follows:

| | **2018 £'000** | **2017 £'000** |
|---|---|---|
| **Deferred tax asset as at 1 January** | **236** | **471** |
| **Impact of adopting IFRS9 on opening balance** | **25** | - |
| **Revised balance as at 1 January** | **261** | **471** |
| **Deferred tax charge/(credit) for the year attributable to:** | | |
| Deferred tax charge in respect of current year | **128** | 309 |
| Adjustments in respect of prior period | **52** | (511) |
| Effect of rate change | **(17)** | (33) |
| **Deferred tax asset as at 31 December** | **424** | **236** |

## 17. CASH AND CASH EQUIVALENTS

| | **31 Dec 2018 £'000** | 31 Dec 2017 £'000 |
|---|---|---|
| Bank balances | **29,466** | 27,946 |
| **Cash and cash equivalents** | **29,466** | 27,946 |

## 18. TRADE AND OTHER PAYABLES

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Trade payables | **412,831** | 408,047 |
| Amounts owed to Group undertakings | **938,099** | 927,948 |
| Accruals and deferred income | **11,903** | 13,896 |
| Other creditors | **444** | 173 |
| Corporation tax payable | - | - |
| Social security and other taxes | **1,149** | 939 |
| **Total trade and other payables** | **1,364,426** | 1,351,003 |

Amounts owed to Group undertakings of £938.1 million (2017: £927.9 million) consists of £941.2 million owed to PCL Asset Trustee Limited offset by the securitisation facility set up fees of £4.1 million (2017: £5.5 million) are offset against the securitisation loan and amortised over the facility period. Intercompany balance of £1.0 million (2017: £1.1 million) was owed to Pomegranate Acquisitions Limited, which is interest free and repayable on demand. Intercompany balances with the SPV entities arise on securitisation transactions, including the issue of securitisation notes and public ABS 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.

## 19. CALLED UP SHARE CAPITAL

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| **Allotted and fully paid** | | |
| 10,000 (2017: 10,000) ordinary shares of £1 each | 10 | 10 |
| 10,000 ordinary shares (2017: 10,000) of USD 0.01 each | - | - |
| **Called up share capital** | **10** | 10 |

## 20. DIVIDENDS

| **On Ordinary shares** | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Declared and paid: £5,000 per £1 share (2017: £5,915 per £1 share) | 50,000 | 59,150 |
| **Dividends paid** | **50,000** | 59,150 |

## 21. INVESTMENT IN COMPANY UNDERTAKINGS

| Name | Country of incorporation | Nature of business | Percentage of shares held | Share Capital |
|---|---|---|---|---|
| Direct Debit Management Services Limited | UK | Dormant | 100 | £2 |

The registered address of Direct Debit Management Services Limited is Ermyn House, Ermyn Way, Leatherhead, Surrey, KT22 8UX.

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

## 22. CONTINGENT LIABILITIES AND COMMITMENTS

### a) Capital Commitments

Capital expenditure authorised and contracted for but not provided in the financial statements amounts to £0.8 million (2017: £1.0 million).

### b) Lease commitments

The Company has outstanding commitments for future minimum lease payments under non-cancellable leases. The leases have varying terms, escalation clauses and renewal rights, and fall due as follows:

| | Land & Buildings | | Other | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **£'000** | £'000 | **£'000** | £'000 |
| No later than one year | **906** | 584 | **201** | 145 |
| Later than one year and no later than five years | **3,869** | 3,813 | **232** | 146 |
| Over five years | **2,660** | 3,627 | **-** | - |
| **Operating lease commitments** | **7,435** | 8,024 | **433** | 291 |

## 23. FINANCIAL INSTRUMENTS

### a) Classification of financial instruments under IFRS9/IAS39

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments under IFRS 9/IAS39.

| At 31 December 2018 under IFRS9 | Mandatorily at FVTPL £'000 | Amortised cost £'000 | Total £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | - | 29,466 | 29,466 |
| Loans and advances to customers | - | 1,400,676 | 1,400,676 |
| Amounts due from Group undertakings | - | 68,736 | 68,736 |
| **Total financial assets** | **-** | **1,498,878** | **1,498,878** |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | - | 1,364,426 | 1,364,426 |
| **Total financial liabilities** | **-** | **1,364,426** | **1,364,426** |

| At 31 December 2017 under IAS 39 | Designated at fair value through profit and loss £'000 | Loans and receivables £'000 | Other financial instruments at amortised cost £'000 | Total £'000 |
|---|---|---|---|---|
| Cash and cash equivalents | - | 27,946 | - | 27,946 |
| Loans and advances to customers | - | 1,420,696 | - | 1,420,696 |
| Amounts due from Group undertakings | - | 55,965 | - | 55,965 |
| **Total financial assets** | **-** | **1,504,607** | **-** | **1,504,607** |
| | | | | |
| **Liabilities** | | | | |
| Trade and other payables | - | - | 1,351,003 | 1,351,003 |
| **Total financial liabilities** | **-** | **-** | **1,351,003** | **1,351,003** |

### 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 balance sheet are approximately equal to their fair values.

| At 31 December 2018 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to customers | - | 1,400,676 | - | 1,400,676 |
| Amounts due from Group undertakings | - | 68,736 | - | 68,736 |
| **Total financial assets** | **-** | **1,469,412** | **-** | **1,469,412** |
| | | | | |
| **Liabilities** | | | | |
| Trade and other payables | - | 1,364,426 | - | 1,364,426 |
| **Total financial liabilities** | **-** | **1,364,426** | **-** | **1,364,426** |

| At 31 December 2017 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to customers | - | 1,420,696 | - | 1,420,696 |
| Amounts due from Group undertakings | - | 55,965 | - | 55,965 |
| **Total financial assets** | **-** | **1,476,661** | **-** | **1,476,661** |
| | | | | |
| **Liabilities** | | | | |
| Trade and other payables | - | 1,351,003 | - | 1,351,003 |
| **Total financial liabilities** | **-** | **1,351,003** | **-** | **1,351,003** |

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).

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

## 24. CAPITAL RESOURCES

It is the Company's policy is to maintain a strong capital base, to expand it as appropriate and to utilise it 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 Company sets the amount of capital based on the Board's view of perceived credit risk, the availability and cost of external financing. The Company manages the capital structure and adjusts it in 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 Company 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 without subsequent advancement. The Company is not subject to any externally imposed capital requirements.

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| **Profit for the financial year** | **31,813** | 43,946 |
| *Divided by:* | | |
| Opening equity | **182,362** | 196,836 |
| Closing equity | **164,451** | 182,362 |
| **Average equity** | **173,407** | 189,599 |
| **Return on equity** | **18.3%** | 23.2% |

Return on equity is defined by the Company as profit after tax divided by the average of the opening and closing equity positions.

The debt and equity amounts for the Company at 31 December 2018 and 31 December 2017 were as follows:

| | Note | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|---|
| **Debt** | | | |
| Amounts owed to Company undertakings | 18 | **938,099** | 927,948 |
| Less: Cash | 17 | **(29,466)** | (27,946) |
| **Net debt** | | **908,633** | 900,002 |
| | | | |
| **Equity** | | | |
| Equity | | **164,451** | 182,362 |
| **Total net debt plus equity** | | **1,073,084** | 1,082,364 |

## 25. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with wholly owned companies.

During the year the Company had the following transactions with the related parties, who are not wholly owned companies:

### Trading transactions

During the year, the Company entered into the following transactions with the related parties:

| | **Interest paid** | Interest paid | **Service fees** | Service fees | **Travel expenses** | Travel expenses |
|---|---|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Cinven | - | - | **353** | 360 | - | 6 |

## 26. PENSION COMMITMENTS

Contributions to the defined contribution pension scheme during the year were £1.3 million (2017: £1.3 million). At year-end, there were no outstanding or prepaid contributions (2017: £nil).

## 27. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Vendcrown Limited.

The ultimate parent undertaking at 31 December 2018 is Pomegranate Topco Limited, a company incorporated in Jersey. The consolidated financial statements of Pomegranate Topco Limited are available from Aztec Financial Services (Jersey) Limited, 11-15 Seaton Place, St Helier, Jersey, JE4 0QH.

The ultimate controlling party is the Fifth Cinven Fund which is managed by Cinven Capital Management (V) General Partner Limited.

The Mizzen Mezzco Limited Company is the smallest Company of undertakings for which Company financial statements are drawn up and of which the company is a member. The consolidated financial statements of Mizzen Mezzco Limited are available from Ermyn House, Ermyn Way, Leatherhead, KT22 8UX, England.

## 28. POST BALANCE SHEET EVENTS

There were no post balance sheet events.

# D: CORPORATE INFORMATION

| | |
|---|---|
| **Directors** | Chris Burke<br>Peter Catterall<br>Maxim Crewe<br>Colin Keogh<br>Andrew Chapman<br>John Reeve<br>Anthony Santospirito<br>Thomas Woolgrove<br>David Young |
| **Company Secretary** | Elizabeth Annys |
| **Registered Office** | Ermyn House<br>Ermyn Way<br>Leatherhead<br>KT22 8UX<br>England |
| **Website** | www.premiumcredit.co.uk |
| **Company number** | 2015200 |
| **Solicitors** | Freshfields Bruckhaus Deringer LLP<br>65 Fleet Street<br>London EC4Y 1HT |
| **Bankers** | HSBC Bank PLC<br>8 Canada Square<br>Canary Wharf<br>London E14 5HQ |
| **Independent Auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>7 More London Riverside<br>London SE1 2RT |