Registered number 133540

Welcome Financial Services Limited
Annual Report and Financial Statements
for the year ended 31 December 2012

Welcome Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2012

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Welcome Financial Services Limited

Directors and Advisers

Directors
P H Thompson
R D East
J M Briggs
J R Drummond Smith
R S Johnson

Company secretary
R C W Todd

Registered office
Kingston House
Centre 27 Business Park
Woodhead Road
Birstall
Batley
West Yorkshire
WF17 9TD

Registered in England
Registered number 133540

Independent Auditor
Grant Thornton UK LLP
Grant Thornton House
Melton Street
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Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2012

The directors present their Annual Report together with the audited financial statements of Welcome Financial Services Limited (the Company or WFS) for the year ended 31 December 2012

Principal activities
The Company's principal activity during 2012 was the provision of consumer credit to non-standard customers In 2009, the Company significantly reduced its lending volumes and closed its car retail operation Since then, the Company's main focus has been on collecting out its loan book, although its Shopacheck home-collected credit business continues to lend to new and existing customers

Business review
Before restructuring adjustments, the Company reported a loss before tax of £13 6 million (2011 loss of £11 2 million) After restructuring adjustments, the Company made a loss in the year before tax of £172 7 million (2011 profit of £1,943 2 million)

The loss before restructuring adjustments reported in 2012 is similar to the loss for the previous year Interest income has fallen by 16 1% as the customer loan book has continued to be collected out This has been offset by a reduction in costs, through the continued closure of branches, a reduction in provision costs in respect of Payment Protection Insurance (PPI) and a reduction in interest expense as a result of the compromise of the external borrowings on 2 March 2011 The loan loss charge has increased to £17 8 million (2011 credit £4 0 million) as the unwinding of the discount that created a credit in the Welcome book in 2011 is lower this year due to the run-off of the Welcome book Further analysis of the loan loss charge is shown in note 11

The large profit in 2011 after restructuring adjustments was as a result of the compromise of the debt owed to Cattles Limited (formerly Cattles plc) (Cattles) as a part of the Company's Scheme of Arrangement, further details of which are set out below

The balance sheet as at 31 December 2012 includes in Borrowings a Scheme liability of £283 6 million (2011 £265 5 million), representing the Company's liability to pay distributions to its Scheme Creditors as it collects out its customer loan book This liability is measured at its discounted value, with the cash flow forecasts being reassessed at each balance sheet date The loss in 2012 after restructuring adjustments is as a result of the upwards revaluation of the Scheme liability of £159 1 million, as set out in note 7, largely as a result of higher forecast future collections at Welcome

The Company's balance sheet as at 31 December 2012 shows net assets of £119 5 million (2011 £291 4 million) These net assets will not benefit the Company's shareholders as they do not include future credit losses to be incurred on the customer loan book, future operating costs of the business and an unwinding of the discount on the Scheme liability and provisions

During 2012, the Company comprised Welcome and Shopacheck During the year Welcome continued to collect out its customer loan book, with cash collections in 2012 of £202.0 million (2011 £318 5 million) 2012 has also seen Shopacheck continue to make good progress in developing its business and increasing its profitability

Total customers' net loans and receivables were £409 2 million (2011 £536 2 million) The directors' current estimate of the fair value of the Company's loans and receivables is £362 8 million at 31 December 2012 (2011 £400 6 million), which is calculated by discounting expected future cash flows from the loans and receivables at 8 0% per annum (2011 8 0%), being a proxy for the Company's cost of capital plus the costs of collection effective at the reporting date

Restructuring of Cattles Group
As previously reported, on 2 March 2011 (Scheme Effective Date), Cattles, the Company's ultimate parent company until 2 March 2011, announced that its Group restructuring schemes had become effective As part of the schemes, the Company entered into a Scheme of Arrangement (the WFS Scheme), a brief summary of which is set out below Further, there was agreement with the Financial Services Compensation Scheme (FSCS), which is also summarised below

On 28 July 2011, WFS made the first distribution to WFS Scheme Creditors in accordance with the WFS Scheme Since then, WFS has continued to make further monthly distributions In total, WFS paid distributions of £140 9 million to WFS Scheme Creditors during 2012 (2011 £147 2 million)

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2012 (continued)

Restructuring of Cattles Group (continued)

The WFS Scheme

The purpose of the WFS Scheme was to compromise the claims of certain creditors of the Company in order to achieve a better return on the claims of WFS Scheme Creditors than they would obtain on an administration of the Company A number of creditors were excluded from the WFS Scheme and continued to be paid in full outside of the WFS Scheme

The compromise of the claims of certain creditors of the Company has been reflected in these financial statements in 2011 and gave rise to a substantial reduction in the value of the Company's liabilities Details of the accounting impact of the WFS Scheme are set out in note 7 to the financial statements

In broad terms, the assets available for distribution to the WFS Scheme Creditors when the WFS Scheme became effective comprised

(a) the proceeds of future net cash collections of the Company's Welcome business, as well as any future sale of the remaining loan book,
(b) the realisable value of the Company's Shopacheck business,
(c) the proceeds of any successful Outward Claims that the Company may have, and
(d) any residual assets held by the Company at the end of the WFS Scheme,

less the costs of administering the WFS Scheme and realising the Company's assets, including any costs incurred in pursuing any Outward Claims

In certain circumstances the WFS Scheme is permitted to end early This is known as a Scheme Reversion There are a number of Scheme Reversion Decision Events, full details of which are set out in the WFS Scheme

If a Scheme Reversion Decision Event occurs, the Scheme Supervisors will call a meeting of WFS's Scheme Creditors to consider and decide whether to (i) take no action, (ii) agree any remedial proposals, or (iii) confirm that a Scheme Reversion should occur

On a Scheme Reversion, the WFS Scheme will come to an end and, subject to certain exceptions, the provisions of the WFS Scheme will cease to be binding on both WFS and the WFS Scheme Creditors

PPI

Under an agreement reached between the FSCS and the Company, the FSCS is paying PPI-related claims of eligible PPI Claimants arising on or after 14 January 2005, in return for certain payments totalling £90 million from the Company, which were made between March and May 2011 (which will be repaid to the Company to the extent that it is not used by the FSCS to pay compensation and costs) Under the terms of the PPI agreement, the Company must make 'top-up' payments to the FSCS in addition to the £90 million if the Company meets or exceeds a business plan The first such top-up payment, amounting to £7 2 million, was paid in September 2011 Further top-up payments have since been made amounting to £5.4 million in March 2012, £4 7 million in September 2012 and £3 4 million in March 2013 As part of the agreement reached with the FSCS, during 2011 the Company contacted all customers it believes are eligible PPI claimants

In addition, pursuant to the terms of the WFS Scheme, the Company has established a trust for the purpose of meeting the cash redress costs of all valid claims anticipated to be made in respect of PPI sold prior to 14 January 2005 £20 million was paid in to the trust shortly before the Scheme Effective Date Further top-up payments have since been made amounting to £0 5 million in August 2012, £4 9 million in January 2013 and £1 4 million in April 2013 Further details are set out in note 16 to the financial statements

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2012 (continued)

Going concern basis
On 2 March 2011, Cattles announced that the scheme of arrangement to effect the restructuring of the Cattles Group had become effective Following the Scheme Effective Date, the Company now has to operate under the terms of the schemes As part of the restructuring discussions, the Company agreed a medium-term financial plan with its key financial creditors and each year has agreed an updated medium-term plan under the WFS Scheme, with its Creditors' Committee The schemes include a number of covenants, which are measured against these medium-term plans, some of which if breached may require a new financial plan, and potentially could lead to Scheme Reversion

The directors continue to believe the Company will not cease trading in the foreseeable future, as Welcome focuses on collecting out its customers' loans, with Shopacheck continuing to trade as normal

After making enquiries regarding the circumstances outlined above, the directors have concluded that based on its current medium-term plan, prepared during 2012, there is currently no reasonable expectation that the Company will not in the foreseeable future meet the covenants contained in the schemes (except in such circumstances, as described in note 16, where the Board has a reasonable expectation that, given the current business performance, if a covenant is at risk of being exceeded in the future, Creditors' Committee consent would be given to remedy any such breach) Accordingly, the directors have a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future and they continue to adopt the going concern basis in preparing the financial statements The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern

Key performance indicators
The key performance measures are summarised below

	2012	2011
Welcome cash collections (£m)	**202.0**	318 5
Welcome loans and receivables neither past due nor impaired (£m)	**267.0**	362 8
Welcome headcount (year end number)	**544**	774
Shopacheck loans and receivables (£m)	**63.8**	58 9

Dividends
The directors do not recommend the payment of an ordinary dividend (2011 £nil) or dividends on any of the preference shares (2011 £nil)

Directors
The directors of the Company who held office during the year and up to the date of signing the financial statements were

P H Thompson
R D East
J M Briggs
J R Drummond Smith
R S Johnson (appointed 15 March 2012)

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2012 (continued)

Statement of Directors' responsibilities
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) 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 and profit or loss of the Company for that period In preparing these financial statements, the directors are required to

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

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

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

Directors' indemnities
The Company has made qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) for the benefit of its directors, indemnifying them to the maximum extent permitted by law against liabilities attaching to them as directors of the Company and of its subsidiary, which remain in force at the date of this report The directors are also indemnified by the provisions made by Cattles

Employment policy
The Company gives sympathetic consideration to applications for employment from disabled persons wherever practicable. Successful applicants and employees who become disabled are given appropriate assistance and training and have the same career and promotion prospects as other employees

Employee involvement
The directors believe in encouraging the interest and involvement of employees by making them more aware of performance at both local and Company level Many employees are able to earn bonus payments based on cash collections and their individual performance

Supplier payment policy and practice
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers when a binding purchase contract is entered into, provided that all trading terms and conditions have been complied with At the year end, the Company had an average of 8 days' purchases (2011 12 days' purchases) outstanding in trade creditors

Financial risk management
Information about the use of financial instruments by the Company and its financial risk management policies is given in note 22 to the financial statements

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2012 (continued)

Auditor
The directors confirm that

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006

By order of the Board

R C W Todd
Company secretary
2 May 2013
Registered number 133540

Independent Auditor's Report to the members of Welcome Financial Services Limited

We have audited the financial statements of Welcome Financial Services Limited for the year ended 31 December 2012 which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the balance sheet, the cash flow statement, statement of accounting policies and the related notes 1 to 23 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended, and
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Grant Thornton UK LLP

Mark Cardiff
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants
London, United Kingdom

2 May 2013

Welcome Financial Services Limited

Income Statement for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Interest income		**138,552**	165,209
Fee and related income		**5,800**	8,800
Revenue		**144,352**	174,009
Interest expense	2	**(566)**	(17,506)
Loan loss charge	11	**(17,841)**	3,981
Staff costs	3	**(44,177)**	(54,865)
Other operating expenses	5	**(95,406)**	(116,791)
Restructuring adjustments – finance costs	7	**(5,994)**	(9,721)
Restructuring adjustments – other	7	**(153,087)**	1,964,070
(Loss) / profit before taxation		**(172,719)**	1,943,177
Taxation	8	**815**	301
(Loss) / profit for the year attributable to equity holders of the Company		**(171,904)**	1,943,478

Statement of Comprehensive Income for the year ended 31 December 2012

There were no items of other comprehensive income in either of the above years and therefore total comprehensive income for the year attributable to the equity holders of the Company amounted to a loss of £171,904,000 (2011 profit of £1,943,478,000)

Welcome Financial Services Limited

Statement of Changes in Equity for the year ended 31 December 2012

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2011	100,005	(1,752,101)	(1,652,096)
Comprehensive profit for the year	-	1,943,478	1,943,478
At 1 January 2012	100,005	191,377	291,382
Comprehensive loss for the year	-	(171,904)	(171,904)
At 31 December 2012	**100,005**	**19,473**	**119,478**

Welcome Financial Services Limited

Balance Sheet as at 31 December 2012

	Notes	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Intangible assets	9	**985**	663
Property, plant and equipment	10	**1,595**	1,817
Loans and receivables	11	**238,565**	316,404
Trade and other receivables	13	**11,733**	24,131
		252,878	343,015
Current assets			
Loans and receivables	11	**172,550**	221,695
Trade and other receivables	13	**4,738**	4,833
Cash and cash equivalents		**40,901**	56,235
		218,189	282,763
Total assets		**471,067**	625,778
LIABILITIES			
Current liabilities			
Borrowings	14	**67,885**	88,892
Trade and other payables	15	**15,122**	14,523
Deferred income		**1,378**	3,684
Provisions	16	**23,389**	25,899
		107,774	132,998
Non-current liabilities			
Borrowings	14	**216,739**	180,643
Preference shares	18	**1,135**	1,135
Deferred income		**1,217**	3,247
Provisions	16	**24,724**	16,373
		243,815	201,398
Total liabilities		**351,589**	334,396
Net assets		**119,478**	291,382
SHAREHOLDERS' EQUITY			
Share capital	18	**100,005**	100,005
Retained earnings		**19,473**	191,377
Total equity		**119,478**	291,382

The financial statements were approved by the Board of Directors on 2 May 2013 and signed on its behalf by

J M Briggs
Director

Registered number 133540

Welcome Financial Services Limited

Cash Flow Statement for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash inflow from operations	19	**128,648**	98,979
Cash flows from investing activities			
Repayment of intra-group borrowings		**(528)**	(36,320)
Purchase of property, plant and equipment		**(551)**	(556)
Proceeds from sale of property, plant and equipment		**428**	1,046
Purchase of intangible assets		**(606)**	(414)
Net cash outflow from investing activities		**(1,257)**	(36,244)
Cash flows from financing activities			
Repayment of Scheme liability		**(140,938)**	(147,167)
Repayment of finance leases and hire purchase contracts		**(1,787)**	(3,480)
Net cash outflow from financing activities		**(142,725)**	(150,647)
Net decrease in cash and cash equivalents		**(15,334)**	(87,912)
Cash and cash equivalents at 1 January		**56,235**	144,147
Cash and cash equivalents at 31 December		**40,901**	56,235
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash and bank balances		**40,901**	56,235

Welcome Financial Services Limited

Statement of accounting policies

General information
WFS is a company incorporated in the United Kingdom The address of the registered office is given on page 2 The nature of the Company's operations is set out in the Directors' Report

Statement of compliance
These financial statements have been prepared in accordance with EU endorsed IFRS and IFRIC interpretations issued by the International Accounting Standards Board effective for accounting periods commencing on or after 1 January 2012 These financial statements have also been prepared in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS

Basis of preparation
The financial statements are prepared under the historical cost convention except for the use of fair values as required by certain accounting standards, and are presented in Pounds Sterling, the Company's functional and presentational currency

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements

The Company's non-trading subsidiary, Shopacheck Financial Services Limited, is considered immaterial and so consolidated financial statements have not been prepared

Going concern
On 2 March 2011, Cattles announced that the scheme of arrangement to effect the restructuring of the Cattles Group had become effective Following the Scheme Effective Date, the Company now has to operate under the terms of the schemes As part of the restructuring discussions, the Company agreed a medium-term financial plan with its key financial creditors and each year has agreed an updated medium-term plan under the WFS Scheme, with its Creditors' Committee The schemes include a number of covenants, which are measured against these medium-term plans, some of which if breached may require a new financial plan, and potentially could lead to Scheme Reversion

The directors continue to believe the Company will not cease trading in the foreseeable future, as Welcome focuses on collecting out its customers' loans, with Shopacheck continuing to trade as normal

After making enquiries regarding the circumstances outlined above, the directors have concluded that based on its current medium-term plan, prepared during 2012, there is currently no reasonable expectation that the Company will not in the foreseeable future meet the covenants contained in the schemes (except in such circumstances, as described in note 16, where the Board has a reasonable expectation that, given the current business performance, if a covenant is at risk of being exceeded in the future, Creditors' Committee consent would be given to remedy any such breach) Accordingly, the directors have a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future and they continue to adopt the going concern basis in preparing the financial statements The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern

Welcome Financial Services Limited

Statement of accounting policies (continued)

Accountmg developments
Standards and interpretations which have been adopted by the Company in 2012
The following standards and amendments to existing standards, which are relevant to the Company's operations, have been published and were mandatory for accounting periods beginning on or after 1 January 2012 or later periods, although the Company did not early adopt any of them Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements

- IFRS 7 (amendment) 'Financial Instruments Disclosures' (effective 1 July 2011) The amendment clarifies the disclosure of transfers of financial assets
- IAS 12 (amendment) 'Income Taxes' (effective 1 January 2012) The amendment clarifies the recovery of underlying assets within deferred tax

Standards and interpretations in 2012 which have not been adopted
The following relevant standards and interpretations have been issued but are not effective for the year ended 31 December 2012

- IAS 1 (amendment) 'Presentation of Financial Statements' (effective 1 July 2012) The amendment clarifies the presentation of items of other comprehensive income
- IFRS 10 'Consolidated Financial Statements' (effective 1 January 2014)
- IFRS 11 'Joint Arrangements' (effective 1 January 2014)
- IFRS 12 'Disclosure of Interests in Other Entities' (effective 1 January 2014)
- IFRS 13 'Fair Value Measurement' (effective 1 January 2013)
- IAS 19 (revised) 'Employee Benefits' (effective 1 January 2013)
- IAS 27 (revised) 'Consolidation and Separate Financial Statements' (effective 1 January 2014)
- IAS 28 (revised) 'Investments in Associates and Joint Ventures' (effective 1 January 2014)
- IAS 32 (amendment) 'Financial Instruments Presentation' (effective 1 January 2014) The amendment clarifies the accounting treatment of offsetting financial assets and financial liabilities
- IFRS 7 and IFRS 9 (amendment) 'Financial Instruments' (effective 1 January 2015) Mandatory effective date and transition disclosures
- IFRS 9 'Financial Instruments' (effective 1 January 2015)
- Annual Improvements 2009-2011 Cycle (effective 1 January 2013)
- IFRS 10, IFRS 11 and IFRS 12 (amendments) - transition guidance (effective 1 January 2013)
- IFRS 10, IFRS 12 and IAS 27 (amendments) - investment entities (effective 1 January 2014)

In all instances, the Board will consider the impact that these standards may have on the Company's 31 December 2013 financial statements The impact is not yet known

Revenue recognition
Revenue comprises the fair value receivable for the interest, insurances and fees recognised on loans, net of any value-added tax, and is recognised as follows

a) Interest income
Interest income is recognised in the income statement for all financial assets measured at amortised cost using the effective interest method The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows through the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset When calculating the EIR, the Company estimates cash flows considering all contractual terms of the financial instruments, such as early settlement options, but does not include an expectation for future credit losses The calculation includes all fees charged to customers, such as acceptance or similar fees, and direct and incremental transaction costs, such as broker commissions and, in the case of the Shopacheck business, certain agents' remuneration

Statement of accounting policies (continued)

Revenue recognition (continued)

a) Interest income (continued)

Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the Company's net investment in the lease or contract Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment (before tax) outstanding in respect of the lease or contract

b) Fee and related income

The Company offered payment protection and other insurance products, such as health, life and mechanical breakdown insurance, to its customers for which a commission was received from third party fronting insurers Income from commission and profit share arrangements, in respect of payment protection insurance, is recognised on an effective interest method over the term of the policy The effective interest method reflects the provision of service under the policy, as the Company bears the insurance risk Commission received for brokering the sale of other insurance products, for which the Company does not bear any underlying insurance risk, is recognised and credited to the income statement when the brokerage service has been provided

Interest expense

Interest expense primarily comprises the interest expense arising on the Company's borrowings from Cattles, prior to the compromise which occurred on 2 March 2011, and the unwinding of discounting on provisions

Financial assets

Financial assets are measured initially at fair value plus transactions costs, except for those financial assets, which are carried at fair value through profit or loss, which are measured initially at fair value Management determines the classification of the Company's financial assets at initial recognition into one of the following categories, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets and financial assets at fair value through profit or loss and re-evaluates this designation at each reporting date to the extent allowed

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company provides money directly to a customer with no intention of trading the receivable This classification includes advances made to customers under hire purchase agreements and purchased debt

Loans and receivables are recognised when cash is advanced to borrowers These assets are initially recognised at fair value plus direct and incremental transaction costs Loans and receivables are subsequently carried at amortised cost using the effective interest method

The Company has not held any held-to-maturity financial assets, available-for-sale financial assets or financial assets at fair value through profit or loss at any point during the year

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership, or where there has been a substantial modification of terms

Impairment of loans and receivables

In respect of loans and receivables, including receivables under hire purchase contracts, the Company assesses on an ongoing basis whether there is objective evidence that a loan asset or a group of loan assets is impaired A loan asset or a group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and the loss event will have an impact on the estimated future cash flows of the loan asset or group of loan assets and can be reliably estimated

For the purposes of evaluating the degree of impairment, loan assets are grouped on the basis of similar credit risk characteristics Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated Future cash flows for a group of loan assets are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the Company Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently

Welcome Financial Services Limited

Statement of accounting policies (continued)

Impairment of loans and receivables (continued)
In Welcome, objective evidence of impairment occurs after a customer misses a full or a part contractual payment Impairment is increased by reference to the level of contractual arrears on a customer account as follows

a) 120 days contractual arrears
At 120 days contractual arrears the relationship with the customer is judged to have broken down and loans are subject to an impairment charge on the basis of expected future cash flows All expected credit losses are deemed to be fully incurred at this point

b) Less than 120 days contractual arrears
Where accounts less than 120 days in arrears have missed the equivalent of one or more contractual payments they are subject to an impairment charge calculated on the basis of expected future cash flows excluding future credit losses The credit losses are deemed to be partially incurred at this point and are calculated based on a customer's propensity to default

c) Incurred but not reported (IBNR)
A provision is also made against accounts which are prepaid and up-to-date based on credit loss events that have occurred but which are not yet reported This is calculated based on the probability of default and the loss given default Future credit losses are not recognised

In Shopacheck, accounts are reviewed based upon cash collection performance over the most recent 13-week period Where the payment performance at each reporting date is fewer than 12 payments over the preceding 13 weeks, an impairment provision is made where future expected cash flows are lower than the carrying value of the loan

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loan asset's original EIR The carrying amount of the asset is reduced through the use of a loan loss provision The amount of the loss is recognised in the income statement as a loan loss charge

Loans and receivables (and the related loan loss provision) are normally written off when there is no realistic prospect of recovery of these amounts

Renegotiated loans
Loans whose terms are contractually renegotiated and subject to a substantial modification in terms, are no longer regarded as past due or impaired and are disclosed as new loans The renegotiated loan is considered to be past due only if further performance issues arise, based on the new contractual terms For renegotiated loans, an initial write down, to reflect incurred credit losses as a result of the renegotiation, is calculated by comparing the revised future contractual cash flows arising from the renegotiated loan, discounted at the original EIR, with the carrying value of the loan Any difference is charged as a loan loss provision to the income statement

On initial recognition, renegotiated loans are recognised at their fair value

Collateral
Loans classified as secured loans relate to those loans on which a charge is applied to customers' property These charges typically comprise 2nd, 3rd or lesser charges on the customers' residential property and, as such, collateral does not represent a significant proportion of the loans' fair value Accordingly, Welcome does not maintain records of customers' property values and does not calculate a fair value of this collateral in respect of its secured loans, as it is deemed immaterial The collateral relating to hire purchase loans relate to second hand motor cars Given the number of variables such as age, state and re-sale value of the vehicle, and relatively immaterial amounts recovered from hire purchase collateral, Welcome does not calculate the value of hire purchase collateral

Welcome Financial Services Limited

Statement of accounting policies (continued)

Staff costs

a) Short-term benefits

Wages, salaries, commissions, bonuses, social security contributions, paid annual leave and non-monetary benefits, including the cost of providing company cars and death-in-service premiums, are accrued in the period in which the associated services are rendered by employees of the Company

b) Pension obligations

The Company is a member of the Cattles Group which operates a number of defined contribution pension plans The Company provides no other post-retirement benefits to its employees, including directors

The defined contribution pension plans are privately administered and the Company pays contributions on a contractual basis The contributions are recognised as a staff cost as they fall due

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits The Company recognises termination benefits when it is demonstrably committed to either the termination of employment or a voluntary redundancy offer

Tax

The charge or credit for current tax is based on the taxable profit or loss for the year as adjusted for items which are non-assessable or disallowed, calculated using rates of tax applicable at the balance sheet date

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand and deposits held with banks with maturity dates of less than three months

Intangible assets – computer software

Acquired software licences are stated at cost less accumulated amortisation and any impairment loss Cost represents expenditure that is directly attributable to the purchase of the licence The licences are amortised over their useful lives (3 to 7 years) on a straight line basis The amortisation charge is recognised within other operating expenses

Costs directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible assets', are recognised as internally generated intangible assets Direct costs include the employment costs of internal software developers, consultancy costs and borrowing costs Borrowing costs are capitalised until such time as the internally generated software is substantially ready for its intended use

Computer software development costs recognised as assets are amortised over their estimated useful lives (5-7 years) on a straight line basis The residual values and useful lives of capitalised computer software are reviewed, and adjusted if appropriate, at each reporting date

All other software development costs, which do not meet the asset recognition criteria of IAS 38, and maintenance costs are recognised as an expense as incurred

Welcome Financial Services Limited

Statement of accounting policies (continued)

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation Cost represents expenditure that is directly attributable to the purchase of the asset Certain land and buildings are held at previous revalued amounts less subsequent accumulated depreciation, which were taken as their deemed cost at the date of transition to IFRS (1 January 2004) in accordance with the exemption under IFRS 1 'First-adoption of International Financial Reporting Standards'

Subsequent costs are 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 items will flow to the Company and the cost of the item can be measured reliably

Land is not depreciated Depreciation on other assets is calculated using the straight line method to allocate the costs less their residual values over their estimated useful lives, as follows

Freehold buildings	2% p a
Leasehold buildings	2% to 20% p.a
Fixtures and office equipment	10% to 20% p a
Computer hardware	Shorter of 20% to 33⅓% p a or the lease term
Motor vehicles	Shorter of 20% p a or the lease term

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

Leasing – as lessee
Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases Assets held under finance leases or hire purchase contracts are capitalised on inception of the agreement at an amount equal to their fair value or, if lower, the present value of the minimum lease payments The interest element of the lease cost is charged to the income statement, within other operating expenses, over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period

Property, plant and equipment acquired under finance leases or hire purchase contracts are depreciated over the shorter of the period of the agreement and the estimated useful lives of the assets

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within other operating expenses or staff costs (in the case of company cars), on a straight line basis over the period of the lease

The obligations outstanding under finance leases and hire purchase contracts are included within other liabilities in the balance sheet

Leasing – as lessor
Where advances were made to customers under hire purchase agreements whereby the Company conveyed the right to use assets over a period of time in exchange for payment, the present value of the lease payment is recognised in loans and receivables Income is recognised over the term of the lease using the net investment method in interest income

Trade and other receivables
Trade and other receivables, which do not include loans and receivables to customers of the Company, are recognised initially at fair value and, subsequently, at amortised cost less provision for impairment

A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original EIR The amount of the loss is recognised in the income statement

Welcome Financial Services Limited

Statement of accounting policies (continued)

Impairment
The carrying amounts of the Company's assets, other than loans and receivables and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

The recoverable amount of the Company's receivables is calculated as the present value of expected future cash flows, discounted at the pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset Receivables with a short duration are not discounted Further details on the impairment policy in relation to the Company's loan portfolio are set out in the accounting policy Impairment of loans and receivables

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the Cash Generating Unit (CGU) to which the asset belongs An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount Impairment losses are recognised in the income statement

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years

Preference shares
The Company's preference shares are recognised as financial liabilities The dividends attached to these shares are non-discretionary and cumulative, and, therefore, give rise to a contractual obligation on the Company

Preference shares are initially recognised at fair value, the value of the consideration received less directly attributable transaction costs After initial recognition, preference shares are measured at amortised cost using the effective interest method The effective interest method takes into account the estimated future dividend payments over the expected life of the shares

Preference dividends are recognised as an interest expense in the period in which the dividend liability falls due

As a result of the restructuring, the Company is no longer forecast to be able to pay any future preference share dividends and, as such, the preference share debt has been revalued at its nominal value

Provisions
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably measured

Further details of insurance provisions are set out in notes 1 and 16

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities Equity instruments issued by the Company are recorded at the proceeds received, net of transactions costs

Scheme liability
As part of the restructuring which became effective on 2 March 2011, the Company has recognised a liability to pay distributions to its Scheme creditors This Scheme liability is measured at its discounted value, with the cash flow forecasts being reassessed at each balance sheet date, and is split based on the expected net cash generation within one year

Further details of the Scheme liability are set out in notes 1 and 14

Statement of accounting policies (continued)

Financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis The effective interest method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the effective life of the financial liability, or, where appropriate, a shorter period

Investments in subsidiaries
The Company owns the whole of the ordinary share capital issued by Shopacheck Financial Services Limited, a dormant company, which is incorporated in England and Wales, which has a carrying value of £1

The investment in a subsidiary is initially recognised at cost At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired If such an indication exists, the Company estimates the investment's recoverable amount The investment is written down to the recoverable amount if this is lower than its carrying value Any impairment loss is recognised in the income statement

The subsidiary is considered immaterial and so consolidated financial statements have not been prepared

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2012

1 Key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

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

The following are the critical sources of estimation and judgement that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements

Key source of judgement
Loan loss provisioning
Impairment losses are calculated in circumstances where a loss event, an impairment trigger, is deemed to have occurred, as described in the statement of accounting policies The determination of impairment triggers has been reviewed and remains a key area of management judgement

Key estimates
Loan loss provisioning
In assessing future cash flows for the purposes of assessing impairment, management uses historical data from portfolios of similar loans The assessment of the applicable range of data to include in the impairment calculation is a key estimate

The degree to which the calculated impairment is deemed to be incurred for each delinquency band is also a key estimate

- **Incurred losses**

Where there is objective evidence of impairment, losses should be calculated on the basis of the present value of future expected cash flows, not including the effects of future credit losses The degree to which a loss is incurred is a matter of judgement

Impairment losses are only considered to be fully incurred when an account has reached the 120 day arrears band For accounts which are past due in the arrears bands 1-29 days, 30-59 days, 60-89 days and 90-119 days, a proportion of the full expected loss is recognised, using a percentage of the full expected loss, reflecting only those credit loss events incurred within those respective bands

If the percentages applied are removed from the 1-29 days, 30-59 days, 60-89 days and 90-119 days bands and the full expected loss is recognised, then based on management's assumptions, the provision would increase by £8 9 million (2011 £15 6 million) If the losses were only deemed incurred at the 120 day arrears band, then the provision would reduce by £18 1 million (2011 £28 9 million)

For accounts which are up-to-date or prepaid, an IBNR provision is calculated based on management's estimates of the propensity of these accounts to roll through to the 120 days arrears band, where credit losses are deemed to be fully incurred

- **Historical data**

The loan book in Welcome is collectively evaluated for impairment Impairment is assessed on the basis of future cash flows based on the historical performance of assets with similar risk characteristics

Historical loan performance data has been used which tracks the subsequent cash performance, based on representative historic data The historical data is reviewed for applicability to the current period

A 10% increase or decrease in actual cash collected against that predicted by historical data would result in a change in loan loss provision of £10 0 million (2011 £13 3 million)

1 Key sources of estimation uncertainty (continued)

Key estimates (continued)
Fair value
Fair value of loans and receivables has been calculated by discounting expected future cash flows from the loans and receivables at a proxy of the Company's cost of capital plus the costs of collection at the reporting date The use of a proxy of the Company's cost of capital reflects the lack of a relevant actual cost of capital in the post-restructuring environment Both the future cash flows and the market rate of interest contain significant estimates A five percentage point increase in the discount factor would reduce the fair value by £26 3 million (2011 £27 6 million)

Provisions
The Company has recognised provisions in relation to potential future costs arising as a result of past sales of insurance products, primarily PPI, further details of which are set out in note 16 The calculation of the provisions contains significant judgement and estimates and was determined by reference to an informed estimate made by the Company as to the likely amount that would be needed to meet such claims That estimate took account of the number of policies sold by the Company, claims received and paid to date, an estimate of the number of claims which may be made in the future and, if made, be valid, and the average cost of redress A change in the average cost of PPI redress of +/- 10% would change the required provision by £4 6 million (2011 £5 5 million)

Scheme liability
As part of the restructuring which became effective on 2 March 2011, the Company has recognised a liability to pay distributions to its Scheme creditors This Scheme liability is dependent on the amount of net cash generated by WFS and is calculated based on risk weighted forecast net cash flows and is measured at its discounted value

A key determinant of the forecast net cash flows is Welcome's performance in collecting cash from its loan book A change of +/- 10% in Welcome's net cash flows over the forecast period would change the carrying value of the Scheme liability by £21 6 million (2011 £16 5 million) To date, since Scheme Effective Date, Welcome's cumulative net cash flows have exceeded forecasts, although there can be no certainty that this outperformance will continue in the future A change of +/- 1% in the discount rate applied to the forecast net cash flows would change the carrying value of the Scheme liability by -£7 4 million / +£7 7 million

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Interest expense

	2012 £'000	2011 £'000
Interest expense on intra-group borrowings	-	18,197
Bank interest	(324)	(378)
Unwinding of discounting on provisions	800	-
Other interest	90	(313)
	566	17,506

Prior to the Group's restructuring becoming effective on 2 March 2011, unsecured intra-group borrowings were subject to an interest charge based on the average cost of borrowing borne by the Company's ultimate parent undertaking up until this date, Cattles Cattles' facilities were a mixture of fixed and floating rate funding Floating rate borrowings were exposed to the risk of rising interest rates Following Scheme Effective Date on 2 March 2011, in accordance with the Scheme, the intra-group borrowings owed to Cattles were compromised

3 Staff costs

	2012 £'000	2011 £'000
Wages and salaries	36,186	44,861
Social security costs	4,151	5,064
Pension costs - defined contribution pension schemes (note 20)	492	589
Other employee benefits	3,348	4,351
Total staff costs	44,177	54,865

Staff costs include a cost for employee termination benefits of £3 0 million (2011 £3 0 million) No termination benefits have been paid to directors of the Company Other employee benefits principally comprise the cost of providing company cars, health insurance and life assurance cover

The average monthly number of persons employed by the Company (including directors) during the year was as follows

	2012 Number	2011 Number
Welcome	655	961
Shopacheck	504	515
	1,159	1,476

4 Directors' emoluments

	2012 £'000	2011 £'000
Aggregate emoluments	**1,320**	1,272
Contributions to defined contribution pension schemes	**28**	16
	1,348	1,288

The number of directors to whom retirement benefits are accruing under pension schemes is

	Number	Number
Under defined contribution scheme	**1**	1

The emoluments of the highest paid director were

	£'000	£'000
Aggregate emoluments	**671**	542

In 2011, the services of D Lovett were provided to the Company by AlixPartners Limited and are included above The amounts paid to this supplier, which includes the costs of providing D Lovett plus other services in the year, are set out in note 23 as a related party supplier

Key management compensation, paid by the Company, amounted to £1 8 million (2011 £2 3 million) Key managers paid by Cattles are disclosed in note 23

5 Other operating expenses

	2012 £'000	2011 £'000
Administrative expenses	**17,790**	20,051
Occupancy costs	**6,281**	9,285
Agents' commission	**11,069**	11,861
Advertising costs	**1,066**	1,222
Collection costs	**7,828**	6,799
Motor and travel expenses	**282**	358
Depreciation and amortisation costs	**671**	565
Provisions costs and movements in amounts forecast to be repaid by the FSCS	**38,843**	55,530
Other	**11,576**	11,120
	95,406	116,791

Other includes hire purchase interest expense of £0 1 million (2011 £0 3 million)

Notes to the financial statements for the year ended 31 December 2012 (continued)

6 Auditor's remuneration

The analysis of Auditor's remuneration is as follows

	2012 £'000	2011 £'000
Audit Services		
Grant Thornton UK LLP	**299**	317

No remuneration was paid to Grant Thornton UK LLP in the year that related to non-audit services (2011 £nil)

7 Restructuring adjustments

Adjustments arising as a result of the restructuring which became effective on 2 March 2011, relate to the following

	2012 £'000	2011 £'000
Release of preference share debt (i)	-	(35,068)
Compromise / release of intra-group borrowings (ii)	-	(2,334,038)
Recognition of Scheme liability (iii)	**153,087**	401,953
Other restructuring scheme costs	-	3,083
	153,087	(1,964,070)
Finance costs – unwinding of discounting of Scheme liability (iii)	5,994	9,721
	159,081	(1,954,349)

(i) As a result of the restructuring, the Company is no longer forecast to be able to pay any future preference share dividends and, as such, in 2011 the preference share debt was revalued at its nominal value

(ii) As a result of the restructuring, the Company's intra-group borrowings owed to Cattles were compromised and a number of other, smaller intra-group liabilities were also released

(iii) On 2 March 2011, the Company recognised a liability to pay distributions to its Scheme creditors The Scheme liability is measured at its discounted value, with the cash flow forecasts being reassessed at each balance sheet date, and is split based on the expected net cash generation within one year Any movement is recognised in the income statement in the relevant period In accordance with IAS39, the unwinding of the discounting of the Scheme liability is recognised as a finance cost

8 Taxation

Analysis of credit in the year:	2012 £'000	2011 £'000
Current tax		
UK corporation tax at 24 5 % (2011 26 5%)	**(967)**	(1,723)
Adjustments in respect of previous years	**152**	1,422
Total tax credit in the income statement	**(815)**	(301)

The rate of tax for the year is 24 5% (2011 26 5%) and represents a blended tax rate following the reduction in the rate of corporation tax from 26% to 24% which was effective from 1 April 2012

The tax credit for the year is lower (2011 lower) than the tax credit (2011 charge) on ordinary activities at the standard rate for the reasons set out in the following reconciliation

	2012 £'000	2011 £'000
(Loss) / profit before taxation	**(172,719)**	1,943,177
Tax on (loss) / profit on ordinary activities at 24 5% (2011 26 5%)	**(42,311)**	514,810
Factors affecting the credit for the year		
Expenses not deductible for tax purposes	**39,019**	293
Income not taxable	**-**	(517,627)
Effect of group relief surrendered for less than standard rate of corporation tax	**967**	1,723
Movement in unprovided deferred tax	**1,358**	(922)
Adjustments to tax credit in respect of previous years	**152**	1,422
Total tax credit for the year	**(815)**	(301)

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

9 Intangible assets

Computer software	Brand name and trademarks licence £'000	Acquired licences £'000	Internally generated software £'000	Total £'000
Cost				
At 1 January 2011	11,640	29,659	62,466	103,765
Additions	-	19	395	414
Written off	(11,640)	(8,953)	(1,424)	(22,017)
At 1 January 2012	-	20,725	61,437	82,162
Additions	-	-	606	606
Written off	-	(4,335)	(6,871)	(11,206)
At 31 December 2012	**-**	**16,390**	**55,172**	**71,562**
Accumulated amortisation				
At 1 January 2011	11,640	29,151	62,466	103,257
Charge for the year	-	259	-	259
Written off	(11,640)	(8,953)	(1,424)	(22,017)
At 1 January 2012	-	20,457	61,042	81,499
Charge for the year	-	12	272	284
Written off	-	(4,335)	(6,871)	(11,206)
At 31 December 2012	**-**	**16,134**	**54,443**	**70,577**
Net book amount				
At 31 December 2012	**-**	**256**	**729**	**985**
At 31 December 2011	-	268	395	663
At 1 January 2011	-	508	-	508

The internally generated computer software principally relates to the cost of developing Welcome's customer relationship management and back-office lending systems Following an impairment review as at 31 December 2008 the carrying value of these assets was written down to £nil at that date

Internally generated software additions during 2012 of £0 6 million (2011 £0 4 million) represent the value of assets under construction Amortisation of this asset will commence upon completion

The net present value of the Company's acquired assets comprises their value in use, calculated as their historic cost less amortisation and impairment as appropriate

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

10 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2011	1,716	8,871	48,756	1,080	60,423
Additions	-	-	556	19	575
Disposals	(632)	(71)	(189)	(1,036)	(1,928)
At 1 January 2012	1,084	8,800	49,123	63	59,070
Additions	-	-	551	-	551
Disposals	(406)	(7,457)	(15,522)	(63)	(23,448)
At 31 December 2012	**678**	**1,343**	**34,152**	**-**	**36,173**
Accumulated depreciation					
At 1 January 2011	284	8,779	48,300	708	58,071
Charge for the year	21	15	142	128	306
Disposals	(114)	(71)	(152)	(787)	(1,124)
At 1 January 2012	191	8,723	48,290	49	57,253
Charge for the year	14	13	358	2	387
Disposals	(79)	(7,413)	(15,519)	(51)	(23,062)
At 31 December 2012	**126**	**1,323**	**33,129**	**-**	**34,578**
Net book amount					
At 31 December 2012	**552**	**20**	**1,023**	**-**	**1,595**
At 31 December 2011	893	77	833	14	1,817
At 1 January 2011	1,432	92	456	372	2,352

The net book value of motor vehicles includes an amount of £nil (2011 £nil) in respect of assets held by the Company under finance leases and hire purchase contracts Included within the depreciation charge is £nil (2011 £0 1 million) in respect of assets held under finance leases and hire purchase contracts

Depreciation has been charged to the Company's income statement through other operating expenses

11 Loans and receivables

	2012 £'000	2011 £'000
Loans and receivables	**409,179**	536,239
Intra-group receivables	**1,936**	1,860
	411,115	538,099
Comprising		
Non-current assets	**238,565**	316,404
Current assets	**172,550**	221,695
	411,115	538,099

Credit risk
Credit risk in relation to loans and receivables is the risk that financial loss arises from the failure of a customer to meet its obligations under a loan agreement A description of the Company's objectives, policies and procedures for managing credit risk are set out in note 22, Financial risk management

Maximum exposure to credit risk
The maximum exposure to credit risk of the Company's loans and receivables is set out in the table below

	2012 £'000	2011 £'000
Welcome	**345,407**	477,349
Shopacheck	**63,772**	58,890
	409,179	536,239

The estimated fair value of loans and receivables at 31 December 2012 is £362 8 million (2011 £400 6 million) Fair value has been calculated by discounting future expected cash flows from the loans and receivables at 8 0% per annum (2011 8 0%), being a proxy for the Company's cost of capital plus the costs of collection effective at the reporting date Management regards this rate to be an appropriate current market rate to use for this type of asset, given the difficulty in obtaining recent market data and the removal of the Company's interest expense on intra-group borrowings following the compromise of the inter-company liability to Cattles on 2 March 2011 The discount rate used is based on the limited market data that exists If the fair value was calculated by discounting the expected future cash flows from the loans and receivables at the effective interest rate for each loan, the estimated fair value would be £300 8 million (2011 £328 9 million)

The estimated fair value of the receivables is less than the carrying value as the fair value calculation takes account of future expected credit losses in addition to incurred losses

Credit quality
A summary of the arrears status of loans and receivables by class is shown below as at 31 December 2012 and 2011

2012	Welcome £'000	Shopacheck £'000	Total £'000
Neither past due nor impaired	266,969	38,742	**305,711**
Past due and impaired	639,789	92,668	**732,457**
Outstanding customer balance	906,758	131,410	**1,038,168**
Unamortised fees and costs and accrued interest	1,939	(29,029)	**(27,090)**
Gross loans and receivables	908,697	102,381	**1,011,078**
Loan loss provision	(563,290)	(38,609)	**(601,899)**
Total loans and receivables	345,407	63,772	**409,179**

11 Loans and receivables (continued)

Credit quality (continued)

2011	Welcome £'000	Shopacheck £'000	Total £'000
Neither past due nor impaired	362,784	33,460	396,244
Past due and impaired	1,007,999	99,607	1,107,606
Outstanding customer balance	1,370,783	133,067	1,503,850
Unamortised fees and costs and accrued interest	(6,864)	(25,294)	(32,158)
Gross loans and receivables	1,363,919	107,773	1,471,692
Loan loss provision	(886,570)	(48,883)	(935,453)
Total loans and receivables	477,349	58,890	536,239

Based upon historical information on customer default rates, management considers the credit quality of loans and receivables that are neither past due nor impaired to be satisfactory

Past due and impaired balances relate to loans which are contractually overdue However, Welcome's contractually overdue loans are not impaired to their full expected loss unless the customer is 120 days in contractual arrears

The credit quality of financial assets that are neither past due nor impaired are reflective of those loans typically made within the non-standard or sub-prime market, which is Welcome and Shopacheck's key focus

Loans and receivables – past due and impaired	Welcome	
	2012 £'000	2011 £'000
Past due up to 29 days	**33,934**	55,917
Past due 30-59 days	**23,750**	37,253
Past due 60-89 days	**19,077**	31,458
Past due 90-119 days	**16,758**	25,886
Past due 120 days or more	**546,270**	857,485
	639,789	1,007,999

The credit quality analysis includes loans and receivables that would have been past due or impaired had their terms not been renegotiated These loans totalled £77 8 million and £1 7 million (2011 £110 5 million and £3 1 million) in respect of Welcome and Shopacheck respectively

Shopacheck receivables of £92 7 million (2011 £99 6 million) which are classified as past due and impaired have not been analysed into past due bandings since the collection performance of this type of loan is not managed with reference to the extent of any contractual arrears arising during the entire period of the loan since its inception Instead, performance is managed, and the need for any loan loss provision is considered, with reference to the value of contractual payments received in only the preceding 13-week period This approach prohibits any meaningful disclosure of the ageing of the debt by reference to its contractual past due status

11 Loans and receivables (continued)

Collateral

The Company holds collateral in relation to certain loans and receivables, further details of which are provided below

Loans and receivables – security type, gross of loan loss charges

2012	Welcome £'000	Shopacheck £'000	Total £'000
Secured	634,811	-	**634,811**
Unsecured	187,332	131,410	**318,742**
Hire purchase	84,615	-	**84,615**
	906,758	**131,410**	**1,038,168**

2011			
Secured	845,943	-	845,943
Unsecured	343,891	133,067	476,958
Hire purchase	180,949	-	180,949
	1,370,783	133,067	1,503,850

Secured loans

Secured loans have 2nd, 3rd or lower charges on the customers' property However, secured loans are not underwritten based on available property equity, but on the customer's ability to afford the loan repayments, with the emphasis placed on assessing and verifying the customer's incomings and outgoings

Hire purchase

Hire purchase loans are advanced to customers for the purchase of used motor vehicles Welcome retains security over the vehicle underlying the hire purchase agreement The terms of the hire purchase contract allow the customer to voluntarily terminate and allow the Company to repossess the vehicle, both subject to meeting certain criteria

A customer may voluntarily terminate the hire purchase contract provided they have paid at least 50% of the contract and have not received a notice of default In this instance, the vehicle is returned to the Company and disposed of, with the proceeds offset against the customer's outstanding balance Any remaining balance is written off

Legally, the Company may repossess a vehicle financed on a hire purchase contract, provided the customer has paid less than one third of the contract and a notice of default has been issued The Company endeavours to negotiate arrangements with the customer to avoid the need for repossession Vehicles that are repossessed are promptly disposed of at auction and the proceeds offset against the customer's outstanding balance The customer is liable for any remaining balance

Maturity profile of hire purchase receivables

The Company's gross investment in hire purchase receivables is analysed in the table below

	Present value 2012 £'000	**Gross carrying value 2012 £'000**	Present value 2011 £'000	Gross carrying value 2011 £'000
Within one year	**29,007**	**29,087**	70,386	71,435
One to five years	**40,431**	**46,631**	48,411	54,574
Over five years	**6,594**	**8,897**	41,543	54,940
	76,032	**84,615**	160,340	180,949
Unearned future finance income	**-**	**(8,583)**	-	(20,609)
Loan loss provision	**(62,283)**	**(62,283)**	(129,467)	(129,467)
Present value of future lease payments	**13,749**	**13,749**	30,873	30,873

11 Loans and receivables (continued)

Collateral

The collateral relating to secured loans detailed above comprises 2nd, 3rd or lesser charges on the borrowers' property, and hire purchase loans mainly comprising motor vehicles Welcome does not consider this collateral to have a material value and, accordingly, does not maintain records of the customers' property values and as such it is impracticable to calculate a fair value of this collateral or value the collateral recovered in respect of its secured loans During the year, no collateral on secured loans was recovered (2011 £nil) Similarly, the value of hire purchase collateral is deemed immaterial and, accordingly, no fair value is disclosed During 2012, £0 9 million (2011 £3 4 million) of hire purchase collateral was recovered

Loan loss provision

The following tables provide an analysis of the movement in the Company's loan loss provision during 2012 and 2011

2012	**Welcome £'000**	**Shopacheck £'000**	**Total £'000**
At 1 January 2012	886,570	48,883	935,453
Utilised	(314,590)	(41,592)	(356,182)
Recoveries of amounts previously written off	2,984	1,803	4,787
Charged to the income statement			
Provisions (released) / created	(8,690)	31,318	22,628
Recoveries of amounts previously written off	(2,984)	(1,803)	(4,787)
Total loan loss charge	(11,674)	29,515	17,841
Loan loss provision at 31 December 2012	**563,290**	**38,609**	**601,899**

Recoveries of amounts previously written off in Welcome includes a profit of £2 6 million on the sale of debt during the year ended 31 December 2012

2011	Welcome £'000	Shopacheck £'000	Total £'000
At 1 January 2011	1,501,792	60,371	1,562,163
Utilised	(582,953)	(41,538)	(624,491)
Recoveries of amounts previously written off	457	1,305	1,762
Charged to the income statement			
Provisions (released) / created	(32,269)	30,050	(2,219)
Recoveries of amounts previously written off	(457)	(1,305)	(1,762)
Total loan loss charge	(32,726)	28,745	(3,981)
Loan loss provision at 31 December 2011	886,570	48,883	935,453

12 Deferred tax assets

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011 25%)

The Company has not recognised a deferred tax asset on losses and other timing differences of £1,382 4 million (2011 £1,375 5 million) in the financial statements, as it is not considered probable that future taxable profits will be available against which this asset can be utilised

13 Trade and other receivables

	2012 £'000	2011 £'000
Non-current		
Other receivables	**11,733**	24,131
Current		
Trade receivables	**1,296**	1,978
Other receivables	**666**	139
Prepayments and accrued income	**2,776**	2,716
	4,738	4,833
Total trade and other receivables	**16,471**	28,964

Analysis of the arrears status of the Company's trade receivables, prepayments and accrued income has not been presented as the amounts concerned are not material Trade and other receivables have been reviewed for indicators of impairment, none of which were found to be impaired The Company's other receivables at 31 December 2012 and 2011 are considered neither past due nor impaired

Non-current other receivables at 31 December 2012 include £10 8 million (2011 £23 1 million) of payments made to the FSCS that the Company forecasts will not be used by the FSCS to pay compensation and costs and are therefore forecast to be repaid to the Company, with the majority being repaid during 2016, 2017 and 2018 Further details of the PPI arrangements with the FSCS are set out in the Directors' Report on page 4

The Company has no renegotiated trade and other receivables and does not hold any collateral in respect of its trade and other receivables

14 Borrowings

	2012 £'000	2011 £'000
Current		
Scheme liability	66,904	84,857
Obligations under finance leases and hire purchase contracts	-	1,787
Intra-group borrowings	981	2,248
	67,885	88,892
Non-current		
Scheme liability	216,739	180,643
Total borrowings	284,624	269,535

On 2 March 2011, the Company recognised a liability to pay distributions to its Scheme creditors The Scheme liability is measured at its discounted value, with the cash flow forecasts being reassessed at each balance sheet date, and is split based on the expected next cash generation within one year

At 31 December 2012, the remaining intra-group borrowings are repayable on demand

15 Trade and other payables

	2012 £'000	2011 £'000
Current		
Trade payables	2,078	2,865
Other taxes and social security	2,645	1,940
Other payables	861	1,041
Accruals	9,538	8,677
	15,122	14,523

All trade payables have a maturity of within one month

16 Provisions

	2012 £'000	2011 £'000
Current		
Property provisions	1,627	2,108
Insurance provisions	21,762	23,791
	23,389	25,899
Non-current		
Property provisions	400	1,564
Insurance provisions	24,324	14,809
	24,724	16,373
Total provisions	48,113	42,272

16 Provisions (continued)

Property provisions relate to the estimated future cost of rectifying dilapidations for the leasehold properties occupied by the Company and the future expected lease rent costs of properties which are not in use by the Company The provision is expected to be utilised within two years from the balance sheet date The movement in the provision is as follows

	2012 £'000	2011 £'000
At 1 January	**3,672**	4,920
Utilised	**(1,888)**	(1,382)
Provisions made	**430**	194
Unused amounts reversed	**(187)**	(60)
At 31 December	**2,027**	3,672

Insurance provisions relate to the estimation of the Company's potential future costs arising as a result of past sales of insurance (see below for further details) The movement in the provision is as follows

	2012 £'000	2011 £'000
At 1 January	**38,600**	80,500
Transfer to other receivables	**-**	(43,100)
Utilised	**(9,327)**	(27,200)
Provisions made	**16,013**	27,800
Movement in discounting	**800**	600
At 31 December	**46,086**	38,600

In previous years, Welcome sold a number of insurance products, including PPI, to a substantial number of its customers Like other companies that sold such products, Welcome has received a significant number of complaints, and has, prior to the restructuring, dealt with these complaints in the ordinary course of its business

As part of the restructuring, the Company entered into an agreement with the FSCS whereby, upon the WFS Scheme becoming effective, the Company made payments to the FSCS for the compensation of eligible PPI claimants (arising on or after 14 January 2005) and the FSCS would, from that point forward, pay eligible claimants in accordance with the FSA's COMP rules As part of the agreement reached with the FSCS, during 2011 the Company contacted all customers it believed were eligible PPI claimants

The arrangement with the FSCS involves certain payments totalling £90 million being made to the FSCS, subject to certain adjustments These payments were made by the Company between March and May 2011 Under the terms of the PPI agreement with the FSCS, the Company must make top-up payments to the FSCS in addition to the £90 million if the Company meets or exceeds its business plan The first such top-up payment, amounting to £7 2 million, was paid in September 2011 Further top-up payments have since been made amounting to £5 4 million in March 2012, £4 7 million in September 2012 and £3 4 million in March 2013

Save for an amount of £2 million, any amount of the payments to the FSCS not used to pay compensation and costs associated with paying compensation will be repaid to the Company during a period of between approximately three years and seven years and three months from the first day of the month following the Scheme Effective Date The actual amount to be repaid will depend on a number of factors, including the number and value of claims that are made As at 31 December 2012, the financial statements include £10 8 million (2011 £23 1 million) in respect of the discounted amount forecast to be repaid by the FSCS This balance is included within trade and other receivables, further details of which are set out in note 13

16 Provisions (continued)

The FSCS covers claims in respect of PPI sold since 14 January 2005 and, as part of the agreement entered into by the Company with the FSCS, all potential claimants were contacted during 2011 and any claims are being administered by the FSCS

The FSCS does not cover claims in respect of PPI sold prior to 14 January 2005, any liability relating to such claims is referred to as an 'Unprotected PPI Liability' in the WFS Scheme Therefore, pursuant to the terms of the WFS Scheme, the Company has established a trust for the purpose of meeting any claims in respect of Unprotected PPI Liabilities It is intended that liabilities relating to all such claims, if they are valid, be discharged in full The amount held in trust was initially £20 0 million, but could be increased to £22 5 million if agreed by the Scheme Supervisor or such higher amount as may be agreed with the Creditors' Committee under the terms of the WFS Scheme Any balance that reverts to the Company will be distributed subject to the terms of the WFS Scheme

The initial amount of £20 0 million held on trust for the purpose of meeting claims in respect of PPI sold prior to 14 January 2005 was determined by reference to an informed estimate made by the Company as to the likely amount that would be needed to meet such claims That estimate took account of the number of PPI policies sold by Welcome prior to 14 January 2005, claims received to date, an estimate of the number of claims which may be made in the future and, if made, be valid, and the average cost of redress to PPI purchasers with valid claims within the relevant pool of PPI purchasers

In November 2011, the Creditors' Committee agreed, based on forecasts prepared in 2011 up to 31 December 2014, to increase the amount held on trust up to a cap of £32 0 million, with any such top-up payments being made quarterly, based on an agreed adjustment mechanism to cover the next two quarters' requirement

In November 2012, the Creditors' Committee agreed, based on forecasts prepared in 2012 up to 31 December 2015, to further increase the amount held on trust up to a cap of £42 3 million, with any such top-up payments still being made quarterly, based on an agreed adjustment mechanism to cover the next two quarters' requirement

A top-up payment of £0 5 million was made in August 2012, with a further £4 9 million being paid in January 2013 and £1 4 million in April 2013

Current forecasts of future cash redress in respect of PPI sold prior to 14 January 2005, included within the PPI provision, are £27 0 million (2011 £28 7 million) In addition, cash redress of £9 2 million (2011 £9 6 million) was paid in 2012 This gives a total forecast cash redress of £45 8 million (2011 £38 3 million) However, the Board has a reasonable expectation that, given the current business performance, if the £42 3 million cap is at risk of being exceeded in the future, consent would be given to further increase the cap In any event, the £42 3 million cap is currently not forecast to be exceeded until the end of 2015 For the £42 3 million cap to be exceeded by June 2014, approximately 67% more future claims would need to be processed or average future cash redress would need to be around 67% higher

The additional provisions created in 2012 of £16 0 million (2011 £27 8 million) principally relate to the re-assessment of the Company's costs, including the cost of redress, in respect of PPI sold prior to 14 January 2005 Provision costs for 2012 shown in note 5 'Other operating expenses' also include £22 4 million (2011 £27 5 million) which principally relate to the re-assessment of the costs, including the cost of redress, in respect of the FSCS scheme

Details of the key sources of estimation, uncertainty and judgement in relation to the provision are set out in note 1

17 Financial instruments

The Company holds no derivatives and has not identified any embedded derivatives, which require separate accounting for in accordance with IAS 39 'Financial instruments Recognition & measurement'

The following tables set out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39 Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets / liabilities

2012	Loans and receivables £'000	Amortised cost £'000	Non-financial assets / liabilities £'000	Total £'000
ASSETS				
Non-current assets				
Intangible assets	-	-	985	985
Property, plant and equipment	-	-	1,595	1,595
Loans and receivables	238,565	-	-	238,565
Trade and other receivables	11,733	-	-	11,733
	250,298	-	2,580	252,878
Current assets				
Loans and receivables	172,550	-	-	172,550
Trade and other receivables	4,072	-	666	4,738
Cash and cash equivalents	40,901	-	-	40,901
	217,523	-	666	218,189
Total assets	**467,821**	-	**3,246**	**471,067**
LIABILITIES				
Current liabilities				
Borrowings	-	67,885	-	67,885
Trade and other payables	-	12,477	2,645	15,122
Deferred income	-	-	1,378	1,378
Provisions	-	-	23,389	23,389
	-	80,362	27,412	107,774
Non-current liabilities				
Borrowings	-	216,739	-	216,739
Preference shares	-	1,135	-	1,135
Deferred income	-	-	1,217	1,217
Provisions	-	-	24,724	24,724
	-	217,874	25,941	243,815
Total liabilities	-	**298,236**	**53,353**	**351,589**

17 Financial instruments (continued)

2011	Loans and receivables £'000	Amortised cost £'000	Non-financial assets / liabilities £'000	Total £'000
ASSETS				
Non-current assets				
Intangible assets	-	-	663	663
Property, plant and equipment	-	-	1,817	1,817
Loans and receivables	316,404	-	-	316,404
Trade and other receivables	24,131	-	-	24,131
	340,535	-	2,480	343,015
Current assets				
Loans and receivables	221,695	-	-	221,695
Trade and other receivables	4,694	-	139	4,833
Cash and cash equivalents	56,235	-	-	56,235
	282,624	-	139	282,763
Total assets	623,159	-	2,619	625,778
LIABILITIES				
Current liabilities				
Borrowings	-	87,105	1,787	88,892
Trade and other payables	-	12,583	1,940	14,523
Deferred income	-	-	3,684	3,684
Provisions	-	-	25,899	25,899
	-	99,688	33,310	132,998
Non-current liabilities				
Borrowings	-	180,643	-	180,643
Preference shares	-	1,135	-	1,135
Deferred income	-	-	3,247	3,247
Provisions	-	-	16,373	16,373
	-	181,778	19,620	201,398
Total liabilities	-	281,466	52,930	334,396

Fair values of non-derivative financial instruments

Except for those financial instruments (being intra-group receivables, intra-group borrowings, trade and other receivables, cash and bank balances, Scheme liability, trade and other payables, preference shares and obligations under finance leases and hire purchase contracts) whose carrying values approximate to their fair values, there are no further financial instruments that are not recognised in the balance sheet at fair value

The fair value of loans and receivables is disclosed in note 11 The carrying value of the Scheme liability is calculated by discounting expected future cash flows and is deemed to approximate to its fair value

18 Share capital

a) Ordinary share capital

	Authorised			
	2012		2011	
	Number	£'000	Number	£'000
Ordinary shares of £1 each	100,000,000	100,000	100,000,000	100,000
Ordinary shares of 1p each	1,004,500	10	1,004,500	10
	101,004,500	100,010	101,004,500	100,010

	Allotted, called up and fully paid			
	2012		2011	
	Number	£'000	Number	£'000
Ordinary shares of £1 each	100,000,000	100,000	100,000,000	100,000
Ordinary shares of 1p each	499,500	5	499,500	5
	100,499,500	100,005	100,499,500	100,005

The rights attached to the ordinary shares are as follows

Voting
On a show of hands every ordinary shareholder who is present in person at a general meeting of the Company and every proxy appointed by an ordinary shareholder and present at a general meeting of the Company shall have one vote and on a poll every ordinary shareholder who is present in person or by proxy shall have one vote for every share held

Dividends
Subject to the preferential rights attaching to the "A", "B" and irredeemable preference shares, ordinary shareholders shall be entitled to receive such dividend as the Company by ordinary resolution may from time to time declare as a final dividend (such dividend not to exceed the amount recommended by the Board) or as the Board may from time to time declare as an interim dividend

Return of capital on a winding-up
Subject to the preferential rights attaching to the "A", "B" and irredeemable preference shares, ordinary shareholders are entitled to participate in any surplus assets on the winding-up of the Company in proportion to their shareholdings

18 Share capital (continued)

b) Preference share capital

	Authorised		Allotted, called up and fully paid	
Number of shares	**2012**	2011	**2012**	2011
"A" preference shares of 1p each	**10,000,000**	10,000,000	**10,000,000**	10,000,000
"B" preference shares of 1p each	**25,000,000**	25,000,000	**25,000,000**	25,000,000
Irredeemable preference shares of 1p each	**150,000,000**	150,000,000	**78,477,202**	78,477,202
	185,000,000	185,000,000	**113,477,202**	113,477,202

	2012		2011	
Allotted, called up and fully paid	**Carrying value £'000**	**Nominal value £'000**	Carrying value £'000	Nominal value £'000
"A" preference shares of 1p each	**100**	**100**	100	100
"B" preference shares of 1p each	**250**	**250**	250	250
Irredeemable preference shares of 1p each	**785**	**785**	785	785
	1,135	**1,135**	1,135	1,135

The rights attached to the preference shares are as follows

The "A" and "B" preference shares have the following rights

- To receive first out of profits a cumulative dividend at the rate of six-month sterling LIBOR per annum on the amount paid up as to nominal value on each "A" or "B", as applicable, preference share,
- In a winding-up, to receive repayment of capital as to nominal value and any unpaid and accrued dividends in preference to all other classes of share, and
- No right to attend and vote at general meetings of the Company, except where a resolution is to be proposed
    - Abrogating, varying or modifying any of the rights of the holders of the "A" or "B", as applicable, preference shares, or
    - In respect of a winding up of the Company, or
    - If any "A" or "B", as applicable, preference dividend has been declared but not paid

The irredeemable preference shares have the following rights

- To receive second out of profits a cumulative preferential dividend equal to twelve-month sterling LIBOR plus 4 68% multiplied by £1 00, paid annually in arrears,
- In a winding-up, to receive repayment of capital as to nominal value, any unpaid dividends and a further £0 99 per irredeemable preference share in preference to all classes of share other than the "A" and "B" preference shares, and
- No right to attend and vote at general meetings of the Company

As a result of the restructuring, the Company is no longer forecast to be able to pay any future preference share dividends and, as such, the preference share debt has been revalued at its nominal value

Notes to the financial statements for the year ended 31 December 2012 (continued)

19 Reconciliation of (loss) / profit before taxation to cash inflow from operations

	2012 £'000	2011 £'000
(Loss) / profit before taxation	**(172,719)**	1,943,177
Adjustments for		
Depreciation of property, plant and equipment	**387**	306
Profit on disposal of property, plant and equipment	**(42)**	(242)
Amortisation of intangible assets	**284**	259
Release of preference share debt	**-**	(35,068)
Release of intra-group borrowings	**-**	(2,334,038)
Release of external borrowings	**-**	(772)
Recognition of Scheme liability	**159,081**	411,674
Decrease in loans and receivables	**127,060**	196,948
Decrease / (increase) in trade and other receivables	**12,493**	(25,046)
Decrease in deferred income	**(4,336)**	(11,549)
Increase / (decrease) in trade and other payables	**599**	(3,522)
Increase / (decrease) in provisions	**5,841**	(43,148)
Cash inflow from operations	**128,648**	98,979

The amount of interest paid and received (excluding that recognised in interest income) during the year was £0 1 million (2011 £0 3 million) and £0 4 million (2011 £0 7 million) respectively

The amount of preference dividends paid during the year was £nil (2011 £nil)

20 Pension obligations

The Company is a member of the Cattles Group, which operates a number of defined contribution pension plans

Defined contribution post-employment benefit plans
The staff cost recognised for the year ended 31 December 2012 in relation to defined contribution pension plans is £0 5 million (2011 £0 6 million)

21 Operating lease arrangements

At the balance sheet date, the Company had total future lease payments under non-cancellable operating leases as follows

	2012		2011	
	Land and buildings £'000	**Motor vehicles £'000**	Land and buildings £'000	Motor vehicles £'000
Future lease payments				
Within one year	**855**	**25**	1,455	481
Between one and five years	**262**	**3,310**	653	956
After five years	**-**	**-**	3	-
	1,117	**3,335**	2,111	1,437

The following lease payments were recognised in the income statement during the year

Lease payments	**1,625**	**1,572**	2,457	2,191

22 Financial risk management

Management of credit risk
The Company acknowledges that the risk arising from changes in credit quality and the recoverability of loans is inherent in the nature of its business Adverse changes in customers' credit quality arising from a general deterioration in economic conditions in the UK, such as higher interest rates, higher unemployment levels or house price reductions, could affect the recoverability and value of the Company's loans and receivables

The Company's Board (the Board) sets standards for credit risk management This is achieved through a combination of governance structures, credit risk policies and credit systems and processes The Board has delegated the authority for implementing credit policy to the Company's executive management Executive management determine credit policy within the risk appetite set by the Board Oversight is provided by the Group Audit & Risk Committee As noted below, new credit is only granted in the Shopacheck business

The Company's principal protections against credit risk in the Welcome business were its credit scoring and underwriting processes Lending to new customers ceased after February 2009 A minimal level of renewal business was granted for the remainder of the year, before the decision was taken to not grant further lending on 16 December 2009

The risk from a concentration of customer credit risk is limited due to the relatively low value of each customer's debt and the Company's large customer base

In the Company's Shopacheck business, credit risk is managed through regular analysis of customers' ability to make repayments, and their credit limits are amended accordingly

Credit risk in relation to cash assets is managed by holding cash at a number of separate banks, to reduce counterparty credit risk

22 Financial risk management (continued)

Liquidity risk - borrowings

The contractual maturities of the Company's borrowings, including both capital and future finance charges comprising interest payments, are analysed below The amounts shown include future finance charges and exclude any impact of discounting and therefore differ from Company's balance sheet

2012	On demand £'000	Up to 3 months £'000	3-12 months £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
Scheme liability	-	22,992	46,167	99,225	42,509	41,316	33,992	24,896	311,097
Intra-group borrowings	981	-	-	-	-	-	-	-	981
Total	**981**	**22,992**	**46,167**	**99,225**	**42,509**	**41,316**	**33,992**	**24,896**	**312,078**

2011	On demand £'000	Up to 3 months £'000	3-12 months £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
Scheme liability	-	30,011	57,706	45,364	90,490	12,039	3,283	54,160	293,053
Obligations under finance leases and hire purchase contracts	-	504	1,368	-	-	-	-	-	1,872
Intra-group borrowings	2,248	-	-	-	-	-	-	-	2,248
Total	2,248	30,515	59,074	45,364	90,490	12,039	3,283	54,160	297,173

The maturity of the Scheme liability is based on the Company's forecast net cash generation which determines the forecast level of distribution payments to Scheme creditors In accordance with the Scheme, actual distribution payments will be determined by the actual net cash generation, which may be higher or lower than that forecast

The Company's gross obligations under finance lease and hire purchase contracts are as follows

	2012 £'000	2011 £'000
Gross lease payments		
Not later than one year	-	1,872
Later than one year but not more than five	-	-
	-	1,872
Future finance charges	-	(85)
Present value of minimum lease payments	-	1,787

The above figures relate to motor vehicles acquired under hire purchase contracts and computer hardware acquired under finance leases

Under the terms of the hire purchase agreements, no unguaranteed residual values are accruing to the Company and no contingent rents are payable

22 Financial risk management (continued)

Liquidity risk – obligations under operating lease contracts

The maturity profiles of the contractual cash flows associated with the Company's operating leases are analysed below

	Up to 3 months £'000	3-12 months £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Over 5 years £'000	Total £'000
2012	**316**	**564**	**185**	**680**	**2,705**	**2**	**-**	**4,452**
2011	613	1,323	624	50	895	40	3	3,548

Management of liquidity risk

Liquidity risk is the risk to earnings or capital arising from an inability to meet obligations when they become due, without incurring unexpected or unacceptable losses It includes the risk of inability to manage unplanned decreases or changes in funding sources and also any failure to recognise and address changes in market conditions that could affect the Company's ability to liquidate assets quickly, with minimum value loss, if necessary

On 2 March 2011, the Group's restructuring became effective and the Company's liability to Cattles of £2 4 billion was compromised An overview of the restructuring is set out on pages 3 and 4 of the Directors' Report At 31 December 2012, the remaining intra-group borrowings of £1 0 million (2011 £2 2 million) were repayable on demand

Management of capital risk

As a consequence of the restructuring events outlined in the Directors' Report capital risk is not considered relevant or significant enough to justify its own category

23 Related party transactions

Ultimate parent undertaking

Prior to 2 March 2011, the ultimate parent undertaking and controlling party of the Company was Cattles, registered in England and Wales As a consequence of the Group's restructuring which became effective on 2 March 2011, operating and financial policy has been set by the operation of the various Schemes and other legal arrangements put in place as part of the Group restructuring, and as such the voting rights over the Company held by its shareholders do not influence the strategic direction of the Company Therefore, the Company neither has a parent or ultimate parent undertaking, nor does it have a controlling related party

Related party transactions

During the year, the Company entered into a number of related party transactions with other Group companies, as outlined below in the narrative and the following table

- The Company employed the services of a fellow subsidiary undertaking for certain debt collection activities for which a fee was levied This fee was derived on an arm's length basis
- The Company levied management charges for the provision of IT services to a fellow subsidiary undertaking The charges were calculated on a cost incurred basis
- During the year, the Company's main office was rented from a fellow subsidiary undertaking at a market-based rent

23 Related party transactions (continued)

	2012 £'000	2011 £'000
Repayment of funds	(528)	(36,320)
Inter-company finance charge	-	18,197
Debt collection charges	1,609	2,328
Management fee – central services	(156)	182
Management charge – IT services	(323)	(296)
Office rental	720	720
Related party suppliers		
The Aaronite Partnership LLP	160	18
AlixPartners Limited	-	293
Collinson Grant Limited	162	586
Graham Horn Consulting Limited	93	216
HAP Limited	502	734
Meadway Consulting Limited	-	153
Thirdant Marler Limited	257	120
Amerial Limited	45	-

Receivables due from and payables to Cattles and fellow subsidiary undertakings are disclosed in notes 11 and 14 respectively

Amounts included in trade and other payables (note 15) in respect of the related party suppliers were The Aaronite Partnership LLP £11,147 (2011 £18,250), Collinson Grant Limited £nil (2011 £31,822), Graham Horn Consulting Limited £nil (2011 £21,046), HAP Limited £150,477 (2011 £238,923) and Thirdant Marler Limited £20,687 (2011 £19,547)

Key management compensation
The following table provides details of certain key management costs, which have been borne by Cattles, the Company's parent prior to 2 March 2011

	2012 £'000	2011 £'000
Short-term employee benefits	-	376
Post-employment benefits	-	11
	-	387

Key management are the directors of the Company, members of the Company's Executive Committee and members of the Shopacheck division board of directors