Registered number 133540

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Welcome Financial Services Limited

Annual Report and Financial Statements

for the year ended 31 December 2010

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Welcome Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2010

Contents

Welcome Financial Services Limited

Directors and Advisers

Directors
M A Young
R D East
J M Briggs
J R Drummond Smith
F R Dee

Company secretary
R C W Todd

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Registered in England
Registered number 133540

Independent Auditor
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30 Finsbury Square
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Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2010

The directors present their Annual Report together with the audited Financial Statements of the Company (WFS) for the year ended 31 December 2010

Principal activities
The Company's principal activities during 2010 were the provision of consumer credit to non-standard customers In 2009, the Company significantly reduced its lending volumes and closed its car retail operation Throughout 2010, the Company's main focus was on collecting out its loan book, although its home collected credit business continues to lend to new and existing customers

Business review
The directors report a loss in the year before tax from continuing operations of £189 7 million (2009 pre tax loss £639 5 million)

During 2010, the Company comprised Welcome Finance (Welcome) and Shopacheck During the year Welcome continued to collect out its customer loan book, with cash collections in 2010 of £499 5 million (2009 £730 9 million) 2010 has also seen Shopacheck continue to make progress in developing its business with customers at 31 December 2010 amounting to 234,000 (2009 227,000) and the business returning to profitability

The main causes of the loss reported in the 2010 results are the loan loss charge together with the reduction in revenue as a result of the decision to stop lending to new customers in 2009 The loan loss charge for the year was £162 8 million (2009 £760 5 million) and total customers' net loans and receivables were £733 2 million (2009 £1,205 8 million) Our current estimate of the fair value of the Company's loans and receivables is £538 3 million at 31 December 2010 (2009 £894 9 million), which is calculated by discounting expected future cash flows from the loans and receivables at 8 0% per annum (2009 8 4%), being the Cattles group's cost of capital plus the costs of collection effective at the reporting date Loans and receivables have continued to impair post year end

Details of significant events since the balance sheet date are contained in note 25 to the financial statements and this report below

Standstill and equalisation agreement
On 25 November 2009, Cattles Limited (formerly Cattles plc) (Cattles), the Company's ultimate parent company throughout 2010, announced that it had agreed a formal Standstill and Equalisation Agreement (SEA) with certain of its key financial creditors At the same time, Cattles also agreed certain modifications to the terms of its bank facilities, private placement notes and, subsequently, its bonds

The signing of the SEA and these modifications were expected to improve the likelihood of Cattles achieving its restructuring objectives, namely

- to stabilise the financial position of Cattles and its subsidiaries (the Group), and
- against that background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Group

The SEA was signed by Cattles, the Company, certain other members of the Group and, among others, lenders of key syndicated and bilateral facilities to Cattles (Banks), guaranteed hedging counterparties (Guaranteed Hedging Counterparties), unguaranteed hedging counterparties (Unguaranteed Hedging Counterparties) and holders of private placement notes issued by Cattles (Noteholders)

The SEA became fully effective on 17 December 2009 (the Effective Date) following the formal approval of the amendments to the bonds by holders of the 2014 and 2017 bonds (Bondholders)

The key provisions of the SEA included

- **Standstill.** A formal agreement by the key financial creditors to 'stand still' and therefore agree not to take enforcement action against Cattles, the Company or other members of the Group for a limited period of time (see below)
- **Cash distributions:** Obligations on the Company to distribute the majority of cash generated by the Group to the key financial creditors (Interim Distributions), subject to the right of the Company to forecast and retain a provision for working capital requirements and other contingencies The SEA expressly provided that this forecast would be prepared on a conservative basis to provide ongoing liquidity

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2010 (continued)

Standstill and equalisation agreement (continued)

- **Cash management:** Obligations on Cattles, the Company and other members of the Group to ensure that the majority of cash generated by the Group, which was subject to rights of set off in favour of certain key financial creditors, continued to be maintained in bank accounts that were subject to such rights of set off in favour of such key financial creditors

The period of standstill was linked to the litigation process relating to certain intra-group subordination arrangements (as set out in Cattles' announcement of 11 August 2009) (the Litigation) The Banks, the Noteholders and the Guaranteed Hedging Counterparties were required to stand still during an initial standstill period from (and including) the Effective Date and ending on the earlier of

(i) 30 June 2011,
(ii) the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation were finally determined by the Entity Priority Accountant, and
(iii) the occurrence of the date on which the SEA is terminated,

unless the Banks and the Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and the Guaranteed Hedging Counterparties against the Group and the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group decide that the standstill applicable to the Banks and the Guaranteed Hedging Counterparties and the Noteholders should be terminated

During the period after 30 June 2011 or after the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant, the standstill can be terminated (i) in the case of the standstill applicable to the Banks and Guaranteed Hedging Counterparties, by the Banks and Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and Guaranteed Hedging Counterparties against the Group, and (ii) in the case of the Noteholders, by the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group

With respect to the Bondholders and the Unguaranteed Hedging Counterparties, the initial standstill period (which began on the Effective Date) was extended following the appeal of the first instance judgement to the Court of Appeal The Court of Appeal hearing was on 12 May 2010 and judgement was handed down on 13 May 2010

A further automatic extension of such standstill period occurred following the appeal of the Court of Appeal judgement to the Supreme Court On 26 July 2010, the Supreme Court refused permission to appeal

The first cash distribution made by the Company in accordance with the SEA took place in December 2009 The initial distribution, which represented the majority of the net cash generated by the Group up to 17 December 2009, amounted to £384 7 million Further distributions amounting, in aggregate, to £229 9 million were made on a monthly basis from December 2009 up to, and including, July 2010 Under the terms of the SEA, on 26 July 2010, the date on which the Supreme Court ordered that permission to appeal the Court of Appeal's decision be refused, Interim Distributions were temporarily suspended pending final determination by the Entity Priority Accountant of the relative entitlements of the creditors to Interim Distributions

The Entity Priority Accountant issued their Final Determination on 18 February 2011

Under the terms of the SEA, the standstill was terminated with effect from 2 March 2011, the date that the restructuring became effective Details of the restructuring are set out below

Restructuring

As noted above, on 25 November 2009, it was announced that Cattles had agreed the SEA with certain of its key financial creditors, and that this should improve the likelihood of it achieving its restructuring objectives After that date, Cattles and the Company continued to engage in discussions with representatives of its key financial creditors in order to progress proposals for a restructuring

On 29 November 2010, it was announced that Cattles had received sufficient support from its key financial creditors to enable it to launch a restructuring of the Group and that Cattles, the Company, certain other members of the Group and certain of their respective key financial creditors had entered into a restructuring lock-up agreement to support a restructuring of the Group in the following way

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2010 (continued)

Restructuring (continued)

- Cattles proposed a scheme of arrangement under Part 26 of the Companies Act 2006 (a scheme) to its shareholders, pursuant to which the shares in Cattles would be acquired by Bovess Limited (Bovess) Under the terms of that scheme, Cattles shareholders would receive 1p in cash for each Cattles share held by them
- Cattles and the Company also each proposed a scheme to certain of their respective creditors Pursuant to those schemes, the claims of those creditors would be compromised in order to facilitate a solvent restructuring of Cattles and the Company
- Another member of the Group, Ewbanks Mail Order Limited (Ewbanks), proposed a scheme to certain of its creditors, pursuant to which the guarantee obligations of it and certain other members of the Group would be compromised in order to facilitate a solvent restructuring of those entities
- Further, Cattles, the Company and certain other members of the Group entered into bilateral agreements with certain other creditors (for example, the pension trustee) in order to facilitate the solvent restructuring

Each scheme and bilateral agreement was subject to obtaining the necessary approvals and it was necessary to satisfy certain conditions precedent prior to the solvent restructuring becoming fully and finally effective in accordance with its terms

Pursuant to the restructuring lock-up agreement, the key financial creditors that are party to that agreement conditionally agreed with Cattles, the Company and certain other Group members to vote in favour of the schemes to be proposed to them and promptly to take all actions which they are reasonably requested to take, in order to support, facilitate, implement or otherwise give effect to the solvent restructuring Therefore, the conclusion was drawn that there was a reasonable expectation that the necessary approvals for the schemes to be proposed to the creditors of Cattles, the Company and Ewbanks would be obtained

On 21 December 2010, Cattles announced the following in respect of each of the schemes of arrangement

- *Cattles Shareholder Scheme*
  Cattles was posting a circular to its shareholders (the Shareholder Scheme Document) containing, amongst other things, the full terms and conditions of the Cattles Shareholder Scheme, an explanatory statement, an anticipated timetable of principal events and details of the actions to be taken by Cattles shareholders The Shareholder Scheme Document also contained notice of the Court-convened shareholder meeting (the Court Meeting) and the general meeting of shareholders (the General Meeting) at which Cattles shareholders could vote on the Cattles Shareholder Scheme Both the Court Meeting and the General Meeting would be held on 31 January 2011

- *Cattles Creditor Scheme and the WFS Creditor Scheme*
  Cattles and the Company were posting a joint letter to certain of their creditors This letter attached formal notice that Court-convened meetings of the creditors of Cattles and of the Company to vote on the Cattles Creditor Scheme and the WFS Creditor Scheme respectively would be held on 1 February 2011

- *Ewbanks Scheme*
  Ewbanks was posting to certain of its creditors a document containing the full terms of the Ewbanks Scheme and an explanatory statement to the Ewbanks Scheme The Court-convened meetings of the creditors of Ewbanks to vote on the Ewbanks Scheme would be held on 1 February 2011

On 31 January 2011, Cattles announced that, at both a Court Meeting and a General Meeting of Cattles Shareholders held earlier that day in connection with the recommended acquisition of Cattles by Bovess by way of a scheme, both resolutions were passed by the requisite majorities of Cattles Shareholders

On 1 February 2011, Cattles announced that, at the Court-convened meetings of the creditors of Cattles, the Company and Ewbanks held earlier that day in connection with the proposed restructurings of Cattles, the Company and Ewbanks by way of schemes, all the necessary resolutions were passed by the relevant classes of their respective creditors by the requisite majorities Completion of the restructuring remained subject to the satisfaction of other conditions, including the Court sanctioning all of the schemes

On 21 February 2011, the hearing at the High Court of Justice of England and Wales (the Court) to sanction all of the schemes commenced and was adjourned until 28 February 2011

Restructuring (continued)
On 28 February 2011, Cattles announced that the Court had sanctioned the scheme to effect the recommended proposal for the acquisition of Cattles by Bovess and sanctioned the schemes of arrangement between each of Cattles, the Company and Ewbanks and certain of their respective creditors All of these schemes were expected to become effective shortly, subject to the satisfaction of certain conditions

On 2 March 2011 (Scheme Effective Date), Cattles announced that all such schemes had become effective In addition, an application had been made to the UK Listing Authority requesting the cancellation of the listing of Cattles shares on the Official List as well as trading of Cattles shares on the London Stock Exchange's main market for listed securities Cancellation was expected to take place by 8 00 a m on Monday 7 March 2011 The consideration of 1p per Cattles share to be paid by Bovess to Cattles shareholders pursuant to the acquisition was expected to be despatched (in the case of certificated holders of Cattles shares) or settled in CREST (in the case of uncertificated holders of Cattles shares) by 16 March 2011

On 7 March 2011, Cattles' shares were de-listed from the London Stock Exchange and Cattles was re-registered as a private limited company On 5 April 2011 Cattles' debt securities (bonds) were de-listed

Overview of Restructuring
The restructuring that became effective on 2 March 2011 (Scheme Effective Date) included the following four schemes, each of which is summarised below

(a) the Cattles Shareholder Scheme,
(b) the Cattles Creditor Scheme,
(c) the WFS Scheme, and
(d) the Co-guarantors Creditor Scheme

Further, it included an agreement with the Financial Services Compensation Scheme (FSCS), and a compromise with the Pension Trustee, each of which is summarised below

The Cattles Shareholder Scheme
The purpose of the Cattles Shareholder Scheme was to transfer ownership of 100% of the shares of Cattles to Bovess, to de-list the shares from the main market of the London Stock Exchange and to re-register Cattles as a private limited company

Bovess is a special purpose vehicle established for the purposes of implementing the restructuring and is controlled by Bovess Holding Limited (Bovess Holdco), which is also a special purpose vehicle whose shares are held by a discretionary trust for general charitable purposes Both Bovess and Bovess Holdco were established and are managed by Structured Finance Management Limited (SFM), a specialist corporate services provider that was engaged in connection with the restructuring

Bovess, by way of the Cattles Shareholder Scheme, acquired the issued and to be issued shares of Cattles for a consideration of 1p per share

In order to become effective, the Cattles Shareholder Scheme had to be approved by a majority in number of the shareholders present and voting at a Court-convened shareholder meeting (either in person or by proxy), representing not less than 75% in value of the shares voted at the meeting In addition, a special resolution necessary to implement the Cattles Shareholder Scheme and the related reduction of capital of Cattles had to be passed by shareholders at a general meeting of its shareholders

Following the Court-convened meeting and the general meeting, the Cattles Shareholder Scheme had to be sanctioned by the Court The Cattles Shareholder Scheme became effective only once the Court orders sanctioning the Cattles Shareholder Scheme and confirming the related reduction of capital were delivered to the Registrar of Companies

Restructuring (continued)
The Cattles Board would not deliver the Court orders sanctioning the Cattles Shareholder Scheme to the Registrar of Companies unless and until (i) the FSA approved, or had been deemed to approve, the indirect change of control of the Company resulting from the acquisition of Cattles by Bovess, (ii) the WFS Scheme became effective in accordance with its terms, and (iii) the Cattles Creditor Scheme was sanctioned by the Court and the Cattles Board confirmed that, subject to no Insolvency Event (as defined in the Cattles Shareholder Scheme) having occurred in relation to Cattles, the Court order sanctioning the Cattles Creditor Scheme would be delivered to the Registrar of Companies immediately upon the WFS Scheme having become effective

Upon the Cattles Shareholder Scheme becoming effective, Bovess became the owner of 100% of the shares in Cattles and shortly thereafter the shares were de-listed from the London Stock Exchange

The Cattles Shareholder Scheme gave Cattles' creditors certainty as to the ownership of Cattles without them having to take direct ownership themselves It also had the benefit of giving Cattles' shareholders some value for their shares and allowing them to crystallise any capital gains tax losses they may have incurred In addition, there were advantages in Cattles being de-listed from the London Stock Exchange (and thereby no longer having to comply with the on-going compliance requirements of a listed company) and re-registering as a private company, providing a more appropriate structure for the Group to maximise cash collections, achieve solvency and, where appropriate, commence solvent liquidations

An amount of £5 3 million was paid by the Company into an account in the name of Bovess, which Bovess used to satisfy the payment of the 1p per share cash consideration due to Cattles' shareholders under the Cattles Shareholder Scheme

The Company also agreed to pay the fees, costs and expenses which SFM and Bovess incurred in connection with the Cattles Shareholder Scheme up until the point it became effective These were capped at £2 million, based on estimates provided by SFM and Bovess

A further amount of £2,500,200 was paid by the Company into an account in the name of Bovess This amount was calculated on the basis of the expected ten year term (with no early termination) of SFM's appointment as corporate services provider If SFM's appointment as corporate services provider to each of Bovess and Bovess Holdco is terminated, SFM is required to procure that Bovess returns unused funds to the Company after deducting certain expenses incurred (and estimated to be incurred) by SFM in relation to such termination

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

The compromise of the claims of certain creditors of Cattles will be reflected in the financial statements of Cattles post-Scheme Effective Date in 2011 and will give rise to a substantial reduction in the value of Cattles' liabilities

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

(a) £49 million, paid by the Company to Cattles,
(b) approximately £5 million projected to be received from the intended future disposal of a property owned by Cattles Properties (Ruddington) Limited, which is currently occupied by the Company,
(c) approximately £2 million in cash held by Cattles prior to the scheme becoming effective, and
(d) the proceeds of any successful claims against third parties (Outward Claims) that Cattles may have,

in each case subject to the costs of administering the Cattles Creditor Scheme and realising Cattles' assets, including any costs incurred in pursuing any Outward Claims

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2010 (continued)

Restructuring (continued)
In certain circumstances the Cattles Creditor Scheme may be ended early This is known as a Scheme Reversion The following are Scheme Reversion Decision Events

(a) Scheme Reversion occurring in respect of the WFS Scheme, and
(b) an Insolvency Event occurring in respect of Cattles after 2 June 2011

Full details of the Scheme Reversion Decision Events are set out in the Cattles Creditor Scheme

If a Scheme Reversion Decision Event occurs, the Scheme Supervisors will call a meeting of Cattles 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 Cattles Creditor Scheme will come to an end and, subject to certain exceptions, the provisions of the Cattles Creditor Scheme will cease to be binding on both Cattles and the Cattles Scheme Creditors

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 will be reflected in the financial statements of the Company post-Scheme Effective Date in 2011 and will give rise to a substantial reduction in the value of the Company's liabilities

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

(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

Co-guarantors Creditor Scheme
The Co-guarantors Creditor Scheme comprised

(a) the Ewbanks Scheme,
(b) a deed of compromise between a number of Group companies which had given guarantees under a number of bank facility agreements and note agreements, and the creditors to whom they owe the relevant guarantee obligations (referred to as 'the Co-guarantors Compromise Deed'), and
(c) a deed of compromise, release and distribution between The Lewis Group Limited (TLG), the other Guarantor Companies, the Pension Trustee (if applicable), and the creditors to whom TLG owed the relevant guarantee obligations (referred to as 'the TLG Distribution Deed')

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2010 (continued)

Restructuring (continued)
The Ewbanks Scheme provided for the compromise of Ewbanks' liabilities to the Guaranteed Creditors and provided Ewbanks with a power of attorney to sign the Co-guarantors Compromise Deed and the TLG Distribution Deed on behalf of each of the Co-guarantor Scheme Creditors

Under the Co-guarantors Creditor Scheme, each of the Guarantor Companies' Guarantor Obligations were limited to an amount equal to its net assets The Guarantor Companies had guaranteed Cattles' debt under a number of bank facility agreements and note agreements, and the Guarantor Companies owed Guarantor Obligations to different Guaranteed Creditors

The Guarantor Companies with material assets will realise those assets for the benefit of the financial creditors of Cattles (being Lenders and Noteholders) to whom the Guarantor Companies have provided guarantees in respect of Cattles' debt (the Guaranteed Creditors)

In most cases this will mean realising their assets through asset sales and then making pro rata payments to their respective Guaranteed Creditors in respect of their Guarantor Obligations after providing in full for all other creditors However, TLG and C L Finance Limited (CLF), acting together, have a business which continues to be viable and generate an income It is intended to keep this business operating with a view to a sale in the future TLG and CLF's respective Guaranteed Creditors would benefit from the proceeds of any such sale In the meantime, the TLG Distribution Deed and the Co-guarantors Compromise Deed provide for periodic payments to be made by TLG and CLF to their Guaranteed Creditors after providing in full for all other creditors

The Lewis Group business, which is run by TLG and CLF, is a contingent debt collection business Having previously purchased debt for its own account, The Lewis Group business has now altered its strategy to focus on contingent debt collection In order to retain existing mandates and continue to win new mandates for contingent debt collection, TLG needs to have a positive balance sheet and be creditworthy The compromise effected by the TLG Distribution Deed was intended to assist in meeting this imperative

The Co-guarantor Compromise Deed also provides for the release of certain obligations owed between the Guarantor Companies, but the primary purpose of the Co-guarantors Creditor Scheme is to provide a more efficient means of realising the assets available to the Guaranteed Creditors than would be provided by a formal insolvency process It is intended to do this by

(a) assisting in preventing multiple insolvencies in the Group and thereby assisting in providing to all of the Ewbanks Scheme Creditors (who are all also WFS Scheme Creditors and Cattles Scheme Creditors) the benefits of the restructuring,
(b) enabling The Lewis Group business to continue to generate funds for the benefit of TLG and CLF creditors and, subsequently, to allow that business to be sold for the benefit of the same creditors, and
(c) providing for the realisation of the assets of each of the Guarantor Companies which have material assets and the distribution of those assets to those companies' Guaranteed Creditors

Payment Protection Insurance (PPI)
Under an agreement reached between the FSCS and the Company, the FSCS will pay 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 will in effect 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 As part of the agreement reached with the FSCS, the Company will contact 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

Compromise with Pension Trustee
Under a compromise agreement, all claims of the Pension Trustee against Cattles, the Company and TLG (including the Group's Section 75 Debt) in respect of the Pension Fund, were compromised for a nominal payment of £1 for each of Cattles, the Company and TLG

Restructuring (continued)
In return for compromising its claims pursuant to the Pension Compromise, the Pension Trustee became a Scheme Creditor (and hence will receive pro rata payments) in each of the Cattles Creditor Scheme and the WFS Scheme, and will either receive pro rata payments from TLG in accordance with the terms of the Co-guarantors Creditor Scheme or (if agreed between TLG and the Pension Trustee) a lump sum compromise payment (calculated on a pro rata basis) For the purposes of any pro rata payments, the debts owed to the Pension Trustee by each of Cattles, the Company and TLG will be amounts equal to each company's notional Section 75 Debt Alternatively, (in respect of TLG only) the pro rata lump sum may be based on the pension scheme actuary's estimate of the Section 75 Debt applicable to TLG as at 25 August 2010, if so agreed with the Pension Trustee

Pensions Regulator and (in the case of the regulated apportionment arrangement only) Pension Protection Fund approval were conditions precedent to the compromise (and the restructuring) becoming effective

The Employee Retention Fund
In December 2010, the Company established the Employee Retention Fund in order to secure the payment of specified employee benefits that the Company is contractually obliged to pay to its employees The Company maintains an account with Clydesdale Bank plc that holds the ring-fenced Employee Retention Fund cash The Company has granted security over this account in favour of Welcome Finance Group Limited, another Group company, which holds the benefit of such security on trust for the relevant employees In the event that the Company becomes insolvent and does not pay the employee benefits as required, Welcome Finance Group Limited will be able to enforce the security and apply the proceeds of enforcement against certain outstanding employee benefits amounts

The amount to be held in the Employee Retention Fund is reviewed on a quarterly basis to reflect the amount of employee benefits required to be collateralised Any surplus amount in the Employee Retention Fund is transferred to accounts of the Company held with The Royal Bank of Scotland plc or HSBC Bank plc The Company is obliged to top up the Employee Retention Fund to the extent that employee benefits required to be collateralised have increased since the last quarterly review date, subject to a maximum of £18 million

The Employee Retention Fund was established to enable the Company to demonstrate to its employees that it has taken steps to ensure that their contractual benefits that would not be protected by the statutory National Insurance Fund will nonetheless be protected in the event of the Company's insolvency The Company's management were concerned that they would be unable to retain key staff with a consequent material impairment of cash collections

Going concern basis
On 2 March 2011 (Scheme Effective Date), Cattles announced that the scheme of arrangement to effect the recommended proposal for the acquisition of Cattles by Bovess had become effective Cattles also announced that the schemes of arrangement between each of Cattles, the Company and Ewbanks and certain of their respective creditors had become effective

Following Scheme Effective Date, Cattles and a number of its subsidiaries, including the Company, now have to operate under the terms of the schemes As part of the restructuring discussions, Cattles and its subsidiaries agreed a medium-term financial plan with their key financial creditors The schemes include a number of covenants, which are measured against this medium-term plan, some of which if breached would lead to Scheme Reversion

At 31 December 2010, the Company owed an inter-company liability to Cattles of £2 4 billion (2009 £2 7 billion) However, at that date, Cattles was also party to the standstill contained within the SEA and Cattles had agreed not to demand repayment of the inter-company liability while the SEA continued Further, as part of the WFS Scheme, Cattles agreed to compromise the inter-company liability for £49 million

As part of the WFS Scheme, the Company has established a trust of £20 million 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 This trust can be increased to £22 5 million with the approval of the Scheme Supervisor There is a covenant in the WFS Scheme that the Company may not, without the prior consent of the Creditors Committee, pay any amount in respect of pre 14 January 2005 PPI liabilities in excess of £22 5 million, which would be a Scheme Reversion event

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2010 (continued)

Going concern basis (continued)
The WFS Scheme includes a covenant in respect of Shopacheck's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as a percentage of gross receivables This will normally be tested on a quarterly basis, based on a 12 month rolling period for EBITDA However, the first testing period as at 31 October 2011 will be for a shorter period and it is anticipated that given Shopacheck is a seasonal business it will not meet the covenant for this initial period Consequently, under the WFS Scheme, the Company will prepare a new cash flow forecast and valuation for approval by the Scheme Supervisor and Creditors Committee Importantly, a breach of the EBITDA to gross receivables covenant is not a Scheme Reversion event

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 there is currently no reason why the Company will not meet the covenants that lead to a Scheme Reversion contained in the schemes and the directors have a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future Accordingly, 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

	2010	2009
Welcome cash collections (£m)	**499.5**	730 9
Welcome roll rates (%)	**4.1**	5 5
Loan loss charge (£m)	**162.8**	760 5
Staff and operating costs (£m)	**174.1**	218 5

Roll rates relate to the average monthly percentage of up-to-date accounts moving into any stage of arrears

Dividends
The directors do not recommend the payment of an ordinary dividend (2009 £nil) or dividends on any of the preference shares (2009 £nil)

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

M A Young
R D East (appointed 7 March 2011)
P J Felton-Smith (appointed 29 June 2010, resigned 6 April 2011)
J M Briggs (appointed 5 May 2011)
J R Drummond Smith
J P Mackin (resigned 28 June 2010)
F R Dee
D Lovett (appointed 25 February 2010, resigned 7 March 2011)
L Barlow (resigned 31 January 2010)

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 prepared 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,

Welcome Financial Services Limited

Directors' Report for the year ended 31 December 2010 (continued)

Statement of Directors' responsibilities (continued)

- 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 for the benefit of its directors which remain in force at the date of this report Directors serving as directors of the Company's ultimate parent throughout 2010, Cattles, 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 Group 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 10 days' purchases (2009 8 days' purchases) outstanding in trade creditors

Financial risk management

Information about the use of financial instruments by the Company is given in note 22 to the Financial Statements

Auditor

Each of the persons who is a director at the date of approval of this Annual Report confirms that

- so far as the 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 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

The Company has passed an elective resolution to dispense with the obligation to reappoint Auditors annually

By order of the Board

RCWTodd

R C W Todd
Secretary
31 May 2011
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 2010 which comprise the income statement, the statement of changes in equity, the balance sheet, the cash flow statement and the related notes 1 to 25 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 Directors' Responsibilities Statement set out on pages 11 and 12, 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 2010 and of its loss for the year then ended,
- 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

31 May 2011

Welcome Financial Services Limited

Income Statement for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Interest income		**240,684**	411,500
Fee and related income		**11,998**	69,954
Revenue		**252,682**	481,454
Interest expense	2	**105,532**	141,999
Loan loss charge	10	**162,790**	760,465
Staff costs	3	**83,160**	122,754
Other operating expenses	5	**90,912**	95,739
Loss before taxation		**(189,712)**	(639,503)
Taxation	7	**558**	1,018
Loss for the year from continuing operations		**(189,154)**	(638,485)
Loss for the year from discontinued operations		**-**	(10,478)
Loss for the year attributable to equity holders of the Company		**(189,154)**	(648,963)

Statement of Comprehensive Income for the year ended 31 December 2010

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 £189,154,000 (2009 a loss of £648,963,000)

Welcome Financial Services Limited

Statement of Changes in Equity for the year ended 31 December 2010

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2009	100,005	(913,984)	(813,979)
Comprehensive loss for the year	-	(648,963)	(648,963)
At 1 January 2010	100,005	(1,562,947)	(1,462,942)
Comprehensive loss for the year	-	(189,154)	(189,154)
At 31 December 2010	**100,005**	**(1,752,101)**	**(1,652,096)**

Welcome Financial Services Limited

Balance Sheet as at 31 December 2010

	Notes	2010 £'000	2009 £'000
ASSETS			
Non-current assets			
Intangible assets	8	**508**	921
Property, plant and equipment	9	**2,352**	4,282
Loans and receivables	10	**424,072**	716,533
		426,932	721,736
Current assets			
Loans and receivables	10	**310,403**	489,253
Tax assets	11	-	-
Trade and other receivables	12	**3,918**	3,851
Cash and cash equivalents		**144,147**	61,908
		458,468	555,012
Total assets		**885,400**	1,276,748
LIABILITIES			
Current liabilities			
Borrowings	13	**2,377,486**	2,545,181
Trade and other payables	14	**18,045**	26,194
Current tax liabilities		-	1,170
Deferred income		**9,777**	12,416
Provisions	15	**66,784**	48,377
		2,472,092	2,633,338
Non-current liabilities			
Borrowings	13	**1,862**	5,634
Preference shares	17	**36,203**	36,106
Deferred income		**8,703**	11,052
Provisions	15	**18,636**	53,560
		65,404	106,352
Total liabilities		**2,537,496**	2,739,690
Net liabilities		**(1,652,096)**	(1,462,942)
SHAREHOLDERS' EQUITY			
Share capital	17	**100,005**	100,005
Retained earnings		**(1,752,101)**	(1,562,947)
Total equity		**(1,652,096)**	(1,462,942)

The Financial Statements were approved by the Board of Directors on 31 May 2011 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 2010

	Notes	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash inflow from operations	19	**254,675**	396,437
Tax repaid		-	86,425
Net cash inflow from operating activities		**254,675**	482,862
Cash flows from investing activities			
Purchase of property, plant and equipment		**(234)**	(756)
Proceeds from sale of property, plant and equipment		**1,165**	700
Purchase of intangible assets		-	(4,018)
Net cash inflow / (outflow) from investing activities		**931**	(4,074)
Cash flows from financing activities			
Repayment of intra-group borrowings		**(167,266)**	(425,927)
Repayment of external borrowings		**(6,101)**	(2,523)
Net cash outflow from financing activities		**(173,367)**	(428,450)
Net increase in cash and cash equivalents from continuing operations		**82,239**	50,338
Net cash flows from discontinued operations		-	(1,080)
Net increase in cash and cash equivalents		**82,239**	49,258
Cash and cash equivalents at 1 January		**61,908**	12,650
Cash and cash equivalents at 31 December		**144,147**	61,908
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash and cash equivalents		**144,147**	61,908

Welcome Financial Services Limited

Statement of accounting policies

General information
Welcome Financial Services Limited (the Company) 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 2010 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

Going concern
On 2 March 2011 (Scheme Effective Date), Cattles announced that the scheme of arrangement to effect the recommended proposal for the acquisition of Cattles by Bovess had become effective Cattles also announced that the schemes of arrangement between each of Cattles, the Company and Ewbanks and certain of their respective creditors had become effective

Following Scheme Effective Date, Cattles and a number of its subsidiaries, including the Company, now have to operate under the terms of the schemes As part of the restructuring discussions, Cattles and its subsidiaries agreed a medium-term financial plan with their key financial creditors The schemes include a number of covenants, which are measured against this medium-term plan, some of which if breached would lead to Scheme Reversion

At 31 December 2010, the Company owed an inter-company liability to Cattles of £2 4 billion (2009 £2 7 billion) However, at that date, Cattles was also party to the standstill contained within the SEA and Cattles had agreed not to demand repayment of the inter-company liability while the SEA continued Further, as part of the WFS Scheme, Cattles agreed to compromise the inter-company liability for £49 million

As part of the WFS Scheme, the Company has established a trust of £20 million 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 This trust can be increased to £22 5 million with the approval of the Scheme Supervisor There is a covenant in the WFS Scheme that the Company may not, without the prior consent of the Creditors Committee, pay any amount in respect of pre 14 January 2005 PPI liabilities in excess of £22 5 million, which would be a Scheme Reversion event

The WFS Scheme includes a covenant in respect of Shopacheck's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as a percentage of gross receivables This will normally be tested on a quarterly basis, based on a 12 month rolling period for EBITDA However, the first testing period as at 31 October 2011 will be for a shorter period and it is anticipated that given Shopacheck is a seasonal business it will not meet the covenant for this initial period Consequently, under the WFS Scheme, the Company will prepare a new cash flow forecast and valuation for approval by the Scheme Supervisor and Creditors Committee Importantly, a breach of the EBITDA to gross receivables covenant is not a Scheme Reversion event

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 there is currently no reason why the Company will not meet the covenants that lead to a Scheme Reversion contained in the schemes and the directors have a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future Accordingly, 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)

Accounting developments
Standards and interpretations in issue which have not been adopted early
The following relevant standards and interpretations have been issued but are not effective for the year ended 31 December 2010

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective 1 July 2010) This clarifies the accounting treatment when the terms of a financial liability are renegotiated and result in an entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability,
- IFRS 9 'Financial Instruments' (effective 1 January 2013) (not yet adopted by the European Union) The International Accounting Standards Board (IASB) aims to replace IAS 39 'Financial Instruments Recognition and Measurement' in its entirety The replacement standard (IFRS 9) is being issued in phases To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued These chapters are effective for annual periods beginning 1 January 2013 Further chapters dealing with impairment methodology and hedge accounting are still being developed, and
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011) The IASB has issued 'Improvements to IFRS 2010' (2010 Improvements) Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011 The 2010 Improvements amend certain provisions of IFRS 3 (revised), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments

In all instances, the Board is considering the impact that these standards may have on the Company's 31 December 2011 financial statements

Revenue recognition
Revenue comprises the fair value receivable for the sale of goods and services, net of 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 certain agents' remuneration

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

Statement of accounting policies (continued)

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, or at the date of acquisition in respect of purchased debt 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

In 2008, Welcome carried an incurred but not reported (IBNR) provision for debt less than 120 days in arrears In 2009 and 2010, with lending activity significantly reduced, and in December 2009 stopped, Welcome has been better able to identify loss events at an earlier stage, and as such is now calculating a loan provision from 1 day overdue As such, IBNR now only refers to debt that is up-to-date

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 one contractual payment 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 the probability of a customer's propensity to default

Welcome Financial Services Limited

Statement of accounting policies (continued)

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 recent cash collection performance over a 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

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
Throughout 2010, the Company was a member of the Cattles group, which operated both a defined benefit pension plan (which closed to future service accrual in May 2010) and a number of defined contribution pension plans The Company provides no other post-retirement benefits to its employees, including directors

There is no contractual agreement or stated policy in place for charging the net expense of the defined benefit plan as a whole to the participating Group companies Consequently, the net defined benefit expense and the retirement benefit obligation are recognised in full by the plan's sponsoring employer, Cattles, the Company's ultimate parent during 2010 The Company, and other participating members, recognise a pension expense equal to their proportion of contributions payable for the period Subsequent to the Group's restructuring becoming effective on 2 March 2011, the Company, and other Group members, are no longer participating employers in the defined benefit plan

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

Statement of accounting policies (continued)

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

d) Share-based payments

The Company is a member of Cattles group, which, throughout 2010, operated a number of equity-settled share-based payment plans In respect of share awards granted after 7 November 2002 (and not vested by 1 January 2005), in accordance with IFRS 2 'Share-based payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of shares or share options A corresponding amount is recorded as an increase in equity within retained earnings The expense is spread over any relevant vesting period and is calculated by reference to the fair value of the shares or share options granted, excluding the effect of any non-market vesting conditions

When the Company's ultimate parent throughout 2010, Cattles, in whose shares the share-based payment awards were made, grants new share options as consideration for the cancellation or settlement of an old grant, these are identified as replacements for the cancelled share options and are accounted for as a modification in accordance with IFRS 2 Therefore, the original fair value in relation to the cancelled share options continues to be recognised as an expense over the original vesting period, together with an expense for the incremental fair value being recognised over the vesting period of the replacement share options The incremental fair value is calculated as the difference between the fair value of the replacement share options and the net fair value of the cancelled share options at the date the replacement share options were granted

Cattles does not make a recharge to the Company for the cost of the awards granted to its employees

In arriving at fair values, the Black-Scholes pricing model is used and various assumptions are made, for example, on expected forfeiture rates, dividend yields, share price volatility and risk free rates The estimate for the number of options that are expected to become exercisable is revised at each reporting date Any impact from the revision of original estimates is recognised in the Income Statement over the remaining vesting period

As a consequence of the Group's restructuring becoming effective on 2 March 2011, all of the Group's share-based payment plans have been terminated

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

Welcome Financial Services Limited

Statement of accounting policies (continued)

Discontinued operations
A discontinued operation is a component of the Company, which has either been disposed of, or is classified as held for sale at the reporting date, and

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale

The profit or loss from discontinued operations, including prior year components of profit or loss, is presented as a single amount in the Income Statement

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held with banks with maturity dates of less than three months, and bank overdrafts Bank overdrafts are shown within borrowings in the Balance Sheet

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 did not meet the asset recognition criteria of IAS 38, and maintenance costs are recognised as an expense as incurred

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

Statement of accounting policies (continued)

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 carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement

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

Welcome Financial Services Limited

Statement of accounting policies (continued)

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

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 provisions relating to PPI are set out in note 1

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

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

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2010

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 historic 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, 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 £41 9 million (2009 £95 5 million) If the losses were only deemed incurred at the 120 day arrears band, then the provision would reduce by £68 5 million (2009 £161 0 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 £16 8 million (2009 £27 9 million)

1 Key sources of estimation uncertainty (continued)

Fair value

Fair value of loans and receivables has been calculated by discounting expected future cash flows from the loans and receivables at the Cattles group's cost of capital plus the costs of collection at the reporting date 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 £42 3 million (2009 £61 5 million)

Provisions

The Company has recognised provisions in relation to potential future costs arising as a result of past sales of PPI, further details of which are set out in note 15 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 PPI policies sold by the Company, 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 A +/- 5% change in the claims response rate would, if all these claims were valid and paid, change the required provision by £7 8 million A change in the average cost of redress of +/- 10% would change the required provision by £5 4 million

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

2 Interest expense

	2010 £'000	2009 £'000
Interest expense on intra-group borrowings	**105,516**	142,013
Bank interest	**(160)**	(185)
Other interest	**79**	74
Interest on preference shares	**97**	97
	105,532	141,999

3 Staff costs

	2010 £'000	2009 £'000
Wages and salaries	**68,553**	100,555
Social security costs	**6,858**	10,459
Pension costs - defined contribution pension schemes (note 20)	**980**	972
Other employee benefits	**6,769**	10,768
Total staff costs	**83,160**	122,754

Staff costs include a cost for employee termination benefits of £6 4 million (2009 £1 7 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 from continuing operations (including directors) during the year was as follows

	2010 Number	2009 Number
Welcome	**1,588**	3,078
Shopacheck	**557**	622
	2,145	3,700

4 Directors' emoluments

	2010 £'000	2009 £'000
Aggregate emoluments	**828**	643
Contributions to defined contribution pension schemes	**6**	30
	834	673

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

	Number	Number
Under defined benefit scheme	-	-
Under defined contribution scheme	-	1
	-	1

The emoluments of the highest paid director were

	£'000	£'000
Aggregate emoluments	**497**	486
Contributions to defined contribution pension scheme	-	-
	497	486

F R Dee, M A Young, J R Drummond Smith and P J Felton-Smith (2009 D J Postings, M W G Collins, J J Corr, I S Cummine, N N Broadhurst, D A Haxby, A J McWalter, F R Dee, M A Young and J R Drummond Smith) received no emoluments in respect of their services to the Company during the year

The services of L Barlow and 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 L Barlow and D Lovett plus other services in the year, are set out in note 24 as a related party supplier

Key management compensation, paid by the Company, amounted to £0 7 million (2009 £0 3 million) Key managers, paid by the Company's ultimate parent company throughout 2010, are disclosed in note 24

5 Other operating expenses

	2010 £'000	2009 £'000
Administrative expenses	**20,093**	32,041
Occupancy costs	**10,789**	13,598
Agents' commission	**10,419**	10,133
Advertising costs	**1,133**	1,156
Collection costs	**6,625**	12,720
Motor and travel expenses	**750**	1,378
Impairment of plant, property and equipment	**502**	9,726
Depreciation and amortisation costs	**1,152**	5,516
Provisions costs	**26,589**	5,826
Other	**12,860**	3,645
	90,912	95,739

Other includes hire purchase interest expense of £0 5 million (2009 £1 3 million)

6 Auditor's remuneration

The analysis of Auditor's remuneration is as follows

	2010 £'000	2009 £'000
Audit Services		
Grant Thornton UK LLP	**266**	600

No remuneration paid to Grant Thornton UK LLP in the year related to non-audit services (2009 £nil)

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

7 Taxation

Analysis of credit in the year:	2010 £'000	2009 £'000
Current tax		
UK corporation tax at 28% (2009 28%)	322	(968)
Adjustments in respect of previous years	(880)	(50)
Total tax credit in the Income Statement	(558)	(1,018)

The rate of tax for the year is 28% (2009 28%) The tax credit for the year is lower (2009 lower) than the tax credit on ordinary activities at the standard rate for the reasons set out in the following reconciliation

	2010 £'000	2009 £'000
Loss from continuing operations before taxation	(189,712)	(639,503)
Tax on loss on ordinary activities at 28% (2009 28%)	(53,119)	(179,061)
Factors affecting the credit for the year		
Expenses not deductible for tax purposes	150	931
Income not taxable for tax purposes	-	(163)
Effect of group relief surrendered for less than the rate of corporation tax	1,292	-
Movement in unprovided deferred tax	51,999	177,207
Adjustments to tax credit in respect of previous years	(880)	(50)
Effect of gains	-	118
Total tax credit for the year	(558)	(1,018)

8 Intangible assets

Computer software	Brand name and trademarks licence £'000	Acquired licences £'000	Internally generated software £'000	Total £'000
Cost				
At 1 January 2009	11,640	28,255	62,466	102,361
Additions	-	4,028	-	4,028
Written off	-	(2,619)	-	(2,619)
At 1 January 2010	**11,640**	**29,664**	**62,466**	**103,770**
Written off	-	(5)	-	(5)
At 31 December 2010	**11,640**	**29,659**	**62,466**	**103,765**
Accumulated amortisation				
At 1 January 2009	11,640	27,119	62,466	101,225
Charge for the year	-	3,598	-	3,598
Written off	-	(1,974)	-	(1,974)
At 1 January 2010	**11,640**	**28,743**	**62,466**	**102,849**
Charge for the year	-	408	-	408
At 31 December 2010	**11,640**	**29,151**	**62,466**	**103,257**
Net book amount				
At 31 December 2010	-	**508**	-	**508**
At 31 December 2009	-	921	-	921
At 1 January 2009	-	1,136	-	1,136

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

The amortisation charge for the year includes £nil (2009 £11,000) relating to discontinued operations

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

9 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 2009	2,476	10,628	47,462	3,989	64,555
Additions	-	134	2,639	62	2,835
Disposals	(200)	(1,365)	(1,506)	(1,559)	(4,630)
At 1 January 2010	**2,276**	**9,397**	**48,595**	**2,492**	**62,760**
Additions	-	-	234	-	234
Disposals	(560)	(526)	(73)	(1,412)	(2,571)
At 31 December 2010	**1,716**	**8,871**	**48,756**	**1,080**	**60,423**
Accumulated depreciation					
At 1 January 2009	310	7,958	39,831	1,664	49,763
Charge for the year	35	778	742	861	2,416
Impairment	-	1,450	8,276	-	9,726
Disposals	-	(1,021)	(1,257)	(1,149)	(3,427)
At 1 January 2010	**345**	**9,165**	**47,592**	**1,376**	**58,478**
Charge for the year	41	56	262	385	744
Impairment	-	2	500	-	502
Disposals	(102)	(444)	(54)	(1,053)	(1,653)
At 31 December 2010	**284**	**8,779**	**48,300**	**708**	**58,071**
Net book amount					
At 31 December 2010	**1,432**	**92**	**456**	**372**	**2,352**
At 31 December 2009	1,931	232	1,003	1,116	4,282
At 1 January 2009	2,166	2,670	7,631	2,325	14,792

The net book value of motor vehicles includes an amount of £0 4 million (2009 £1 1 million) in respect of assets held by the Company under finance leases and hire purchase contracts Included within the depreciation charge is £0 4 million (2009 £9 5 million) in respect of assets held under finance leases and hire purchase contracts

The depreciation charge for the year includes £nil (2009 £0 5 million) relating to discontinued operations

Depreciation has been charged to the Company's Income Statement through other operating expenses

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

10 Loans and receivables

	2010 £'000	2009 £'000
Loans and receivables	**733,187**	1,205,786
Intra-group receivables	**1,288**	-
	734,475	1,205,786
Comprising		
Non-current assets	**424,072**	716,533
Current assets	**310,403**	489,253
	734,475	1,205,786

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

	2010 £'000	2009 £'000
Welcome	**679,302**	1,141,497
Shopacheck	**53,885**	64,289
	733,187	1,205,786

The estimated fair value of loans and receivables at 31 December 2010 is £538 3 million (2009 £894 9 million) Fair value has been calculated by discounting future expected cash flows from the loans and receivables at 8 0% per annum (2009 8 4%), being the Cattles group's cost of capital plus the costs of collection effective at the reporting date Management regards this rate to be the most appropriate current market rate to use for this type of asset, given the difficulty in obtaining recent market data 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 £413 3 million (2009 £648 4 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 2010 and 2009

2010	Welcome £'000	Shopacheck £'000	Total £'000
Neither past due nor impaired	511,285	35,044	**546,329**
Past due and impaired	1,704,785	103,231	**1,808,016**
Outstanding customer balance	2,216,070	138,275	**2,354,345**
Unamortised fees and costs and accrued interest	(34,976)	(24,019)	**(58,995)**
Gross loans and receivables	2,181,094	114,256	**2,295,350**
Loan loss provision	(1,501,792)	(60,371)	**(1,562,163)**
Total loans and receivables	679,302	53,885	**733,187**

10 Loans and receivables (continued)

Credit quality (contmued)
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

2009	Welcome £'000	Shopacheck £'000	Total £'000
Neither past due nor impaired	814,784	29,903	844,687
Past due and impaired	2,184,630	107,489	2,292,119
Outstanding customer balance	2,999,414	137,392	3,136,806
Unamortised fees and costs and accrued interest	(86,783)	(22,612)	(109,395)
Gross loans and receivables	2,912,631	114,780	3,027,411
Loan loss provision	(1,771,134)	(50,491)	(1,821,625)
Total loans and receivables	1,141,497	64,289	1,205,786

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	
	2010 £'000	2009 £'000
Past due up to 29 days	**95,964**	188,078
Past due 30-59 days	**71,102**	145,615
Past due 60-89 days	**58,039**	120,719
Past due 90-119 days	**48,895**	106,359
Past due 120 days or more	**1,430,785**	1,623,859
	1,704,785	2,184,630

The above analysis includes loans and receivables that would have been past due or impaired had their terms not been renegotiated These loans totalled £155 1 million and £5 8 million (2009 £242 2 million and £12 1 million) in respect of Welcome and Shopacheck respectively

Shopacheck receivables of £103 2 million (2009 £107 5 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 In addition, the directors consider that this disclosure of the Shopacheck receivables is not material in the context of the Company's total gross loans and receivables of £2 3 billion (2009 £3 0 billion)

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

10 Loans and receivables (continued)

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

2010	Welcome £'000	Shopacheck £'000	Total £'000
Secured	1,149,708	-	**1,149,708**
Unsecured	673,100	138,275	**811,375**
Hire purchase	393,262	-	**393,262**
	2,216,070	**138,275**	**2,354,345**

2009			
Secured	1,268,518	-	1,268,518
Unsecured	1,045,064	137,392	1,182,456
Hire purchase	685,832	-	685,832
	2,999,414	137,392	3,136,806

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 2010 £000	**Gross carrying value 2010 £'000**	Present value 2009 £'000	Gross carrying value 2009 £'000
Within one year	**108,008**	**123,693**	350,437	404,342
One to five years	**150,707**	**172,593**	184,113	235,859
Over five years	**84,679**	**96,976**	37,796	45,631
	343,394	**393,262**	572,346	685,832
Unearned future finance income	**-**	**(49,868)**	-	(113,486)
Loan loss provision	**(260,761)**	**(260,761)**	(320,068)	(320,068)
Present value of future lease payments	**82,633**	**82,633**	252,278	252,278

10 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 (2009 £nil) Similarly, the value of hire purchase collateral is deemed immaterial and, accordingly, no fair value is disclosed During 2010, £15 1 million (2009 £22 9 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 2010 and 2009

2010	**Welcome £'000**	**Shopacheck £'000**	**Total £'000**
At 1 January 2010	1,771,134	50,491	1,821,625
Utilised	(403,730)	(27,875)	(431,605)
Recoveries of amounts previously written off	8,390	963	9,353
Charged to the Income Statement			
Additional provisions created	134,388	37,755	172,143
Recoveries of amounts previously written off	(8,390)	(963)	(9,353)
Total loan loss charge	125,998	36,792	162,790
Loan loss provision at 31 December 2010	**1,501,792**	**60,371**	**1,562,163**

2009	Welcome £'000	Shopacheck £'000	Total £'000
At 1 January 2009	1,224,139	54,485	1,278,624
Utilised	(175,713)	(43,404)	(219,117)
Recoveries of amounts previously written off	877	776	1,653
Charged to the Income Statement			
Additional provisions created	722,708	39,410	762,118
Recoveries of amounts previously written off	(877)	(776)	(1,653)
Total loan loss charge	721,831	38,634	760,465
Loan loss provision at 31 December 2009	1,771,134	50,491	1,821,625

11 Tax assets

Current tax assets

Current tax assets amounted to £nil (2009 £nil)

Deferred tax assets

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27% (2009 28%)

The Company has not recognised a deferred tax asset on losses of £1,385 7 million (2009 £1,300 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

In addition, no deferred tax asset has been recognised on accelerated capital allowances or other timing differences, as it is not considered probable that future taxable profits will be available against which these assets will reverse

12 Trade and other receivables

	2010 £'000	2009 £'000
Current		
Trade receivables	**295**	608
Other receivables	**554**	609
Prepayments and accrued income	**3,069**	2,634
	3,918	3,851

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 The Company's other receivables are considered neither past due nor impaired

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 2010 and 2009 are considered neither past due nor impaired

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

13 Borrowings

	2010 £'000	2009 £'000
Current		
External borrowings	**732**	965
Obligations under finance leases and hire purchase contracts	**3,426**	5,522
Intra-group borrowings	**2,373,328**	2,538,694
	2,377,486	2,545,181
Non-current		
External borrowings	**40**	621
Obligations under finance leases and hire purchase contracts	**1,822**	5,013
	1,862	5,634
Total borrowings	**2,379,348**	2,550,815

External borrowings relate to a fixed rate 6 39% loan, which is repayable in quarterly instalments by September 2011

At 31 December 2010, intra-group borrowings are repayable on demand, however they were subject to the agreements contained in the SEA and were not subject to repayment whilst the SEA continued

14 Trade and other payables

	2010 £'000	2009 £'000
Current		
Trade payables	**3,042**	3,595
Other taxes and social security	**3,614**	4,798
Other payables	**742**	2,565
Accruals	**10,647**	15,236
	18,045	26,194

All trade payables have a maturity of within one month

15 Provisions

	2010 £'000	2009 £'000
Current		
Property provisions	**1,311**	577
Payment Protection Insurance provisions	**65,473**	47,800
	66,784	48,377
Non-current		
Property provisions	**3,609**	5,860
Payment Protection Insurance provisions	**15,027**	47,700
	18,636	53,560
Total provisions	**85,420**	101,937

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 three years from the balance sheet date The movement in the provision is as follows

	2010 £'000	2009 £'000
At 1 January	**6,437**	2,211
Utilised	**(3,206)**	(929)
Provisions made	**1,689**	5,155
At 31 December	**4,920**	6,437

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

	2010 £'000	2009 £'000
At 1 January	**95,500**	93,900
Utilised	**(36,300)**	(4,457)
Provisions made	**24,900**	6,057
Movement in discounting	**(3,600)**	-
At 31 December	**80,500**	95,500

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

15 Provisions (continued)

As part of the restructuring, the Company has entered into an agreement with the FSCS whereby, upon the WFS Scheme becoming effective, the Company would make a payment to the FSCS for the compensation of eligible claimants 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, the Company will contact all customers it believes are eligible PPI claimants The arrangement with the FSCS involves certain payments totalling £90 million being made to the FSCS, subject to certain adjustments 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 date on which the WFS Scheme becomes effective This could be a significant amount, depending on a number of factors, including the number of claims that are made

The additional provisions created in 2010 of £24 9 million principally relate to the Company's and the FSCS's costs in operating the FSCS scheme

The FSCS covers claims in respect of PPI sold since 14 January 2005 and, as part of the agreement entered into by WFS with the FSCS, all potential claimants will be contacted and any claims will be 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") 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 million, but may be increased to £22 5 million 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 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

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

Notes to the financial statements for the year ended 31 December 2010 (continued)

16 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

2010	Loans and receivables £'000	Amortised cost £'000	Non-financial assets / liabilities £'000	Total £'000
ASSETS				
Non-current assets				
Intangible assets	-	-	508	508
Property, plant and equipment	-	-	2,352	2,352
Loans and receivables	424,072	-	-	424,072
	424,072	-	2,860	426,932
Current assets				
Loans and receivables	310,403	-	-	310,403
Trade and other receivables	3,364	-	554	3,918
Cash and cash equivalents	144,147	-	-	144,147
	457,914	-	554	458,468
Total assets	**881,986**	**-**	**3,414**	**885,400**
LIABILITIES				
Current liabilities				
Borrowings	-	2,374,060	3,426	2,377,486
Trade and other payables	-	14,431	3,614	18,045
Deferred income	-	-	9,777	9,777
Provisions	-	-	66,784	66,784
	-	2,388,491	83,601	2,472,092
Non-current liabilities				
Borrowings	-	40	1,822	1,862
Preference shares	-	36,203	-	36,203
Deferred income	-	-	8,703	8,703
Provisions	-	-	18,636	18,636
	-	36,243	29,161	65,404
Total liabilities	**-**	**2,424,734**	**112,762**	**2,537,496**

16 Financial instruments (continued)

2009	Loans and receivables £'000	Amortised cost £'000	Non-financial assets / liabilities £'000	Total £'000
ASSETS				
Non-current assets				
Intangible assets	-	-	921	921
Property, plant and equipment	-	-	4,282	4,282
Loans and receivables	716,533	-	-	716,533
	716,533	-	5,203	721,736
Current assets				
Loans and receivables	489,253	-	-	489,253
Trade and other receivables	3,242	-	609	3,851
Cash and cash equivalents	61,908	-	-	61,908
	554,403	-	609	555,012
Total assets	1,270,936	-	5,812	1,276,748
LIABILITIES				
Current liabilities				
Borrowings	-	2,539,659	5,522	2,545,181
Trade and other payables	-	21,396	4,798	26,194
Current tax liabilities	-	-	1,170	1,170
Deferred income	-	-	12,416	12,416
Provisions	-	-	48,377	48,377
	-	2,561,055	72,283	2,633,338
Non-current liabilities				
Borrowings	-	621	5,013	5,634
Preference shares	-	36,106	-	36,106
Deferred income	-	-	11,052	11,052
Provisions	-	-	53,560	53,560
	-	36,727	69,625	106,352
Total liabilities	-	2,597,782	141,908	2,739,690

Fair values of non-derivative financial instruments
The following table summarises the carrying values and fair values of those financial instruments not recognised in the Balance Sheet at fair value, except for those financial instruments (being intra-group loans and advances, intra-group borrowings, trade and other receivables, cash and bank balances, bank overdrafts, trade and other payables, preference shares and obligations under finance leases and hire purchase contracts) whose carrying values approximate to their fair values The fair value of loans and receivables is disclosed in note 10

	2010		2009	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
External borrowings	**772**	**776**	1,586	1,589

The fair value of external borrowings is calculated by discounting expected future cash flows Expected future cash flows are derived using the borrowing's fixed interest rate

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

17 Share capital

a) Ordinary share capital

	Authorised			
	2010		2009	
	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			
	2010		2009	
	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

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

17 Share capital (continued)

b) Preference share capital

	Authorised		Allotted, called up and fully paid	
Number of shares	**2010**	2009	**2010**	2009
"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

	2010		2009	
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	**35,853**	**785**	35,756	785
	36,203	**1,135**	36,106	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

18 Share-based payments

Equity-settled share option schemes

The ultimate parent company throughout 2010, Cattles, had a number of option schemes, being the Cattles Executive Share Option Scheme (1994), the Cattles Executive Share Option Scheme (1996) and the Cattles Employee Sharesave Scheme

Certain employees, including directors, of the Company have outstanding options under these schemes as at 31 December 2010 as follows

Period granted	Exercise price (pence)	Exercise period	2010 Number	2009 Number
Executive Share Option Schemes				
2000	188 40	2003 – 2010	-	584
2001	189 68 – 241 30	2004 – 2011	**15,184**	15,184
2002	284 10	2005 – 2012	**4,672**	4,672
			19,856	20,440
Employee Sharesave Scheme				
2005	208 17	2010 – 2011	**34,958**	62,361
2007	255 25	2010 – 2011	**10,585**	26,876
2007	255 25	2012 – 2013	**32,980**	68,386
2008	46 60	2011 – 2012	**734,184**	1,978,259
2008	46 60	2013 – 2014	**1,385,262**	3,730,068
			2,197,969	5,865,950
			2,217,825	5,886,390

18 Share-based payments (continued)

The outstandıng share optıons may be analysed by a range of exercıse prıces as follows

	2010			2009		
Range of exercise prices (pence)	Weıghted average exercıse price (pence)	Number	Weighted average remainıng lıfe (years)	Weıghted average exercıse prıce (pence)	Number	Weıghted average remaınıng lıfe (years)
46 60 – 149 00	**46.60**	**2,119,446**	**2.72**	46 60	5,708,327	3 72
150 00 – 199 00	**189.68**	**1,168**	**0.75**	189 25	1,752	1 26
200 00 – 249 00	**217 65**	**48,974**	**0.38**	214 25	76,377	1 39
250 00 – 299 00	**258 04**	**48,237**	**1.87**	256 60	99,934	2 83
	55.05	**2,217,825**	**2.65**	52 38	5,886,390	3 68

The expected remaınıng lıfe of the share optıons equates to theır remaınıng contractual lıfe

A reconcılıatıon of optıon movements durıng the year ıs shown below

	2010		2009	
	Number	Weighted average exercise price (pence)	Number	Weıghted average exercıse prıce (pence)
Outstandıng at 1 January	**5,886,390**	**52.38**	15,971,073	54 58
Expıred	**(3,668,565)**	**50.77**	(10,084,683)	55 86
Outstandıng at 31 December	**2,217,825**	**55.05**	5,886,390	52 38
Exercısable at 31 December	**100,509**	**149.33**	20,440	246 62

No optıons were granted or exercısed ın the year (2009 nıl)

As a consequence of the Group's restructurıng becomıng effectıve on 2 March 2011, all of the Group's share-based payment plans have been termınated

Welcome Financial Services Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

18 Share-based payments (continued)

Shares issued under senior executive long-term incentive plans and staff Share Incentive Plan
Cattles also had a number of long-term incentive plans for senior executives, including the directors of the Company Details of each plan are set out in the financial statements of Cattles During the year no shares were awarded to directors and senior executives under the long-term incentive plans (2009 nil)

Cattles also operated a Share Incentive Plan, which was open to all eligible UK employees of the Company, and was an HMRC-approved all-employee scheme During the year no shares were awarded to the Company's employees under the Share Incentive Plan (2009 nil)

Fair value of share-based payments
The fair values of all share-based payments arising from share awards granted post 7 November 2002 have been estimated using the Black-Scholes option pricing model The assumptions used in the calculations are set out in the financial statements of Cattles

The Company recognised a total charge of £nil (2009 £nil) relating to equity-settled share-based payment transactions during the year

19 Reconciliation of loss before taxation to cash inflow from continuing operations

	2010 £'000	2009 £'000
Loss before taxation	**(189,712)**	(639,503)
Adjustments for		
Depreciation of property, plant and equipment	**744**	2,292
Impairment of tangible assets	**502**	9,726
(Profit) / loss on disposal of property, plant and equipment	**(247)**	214
Amortisation of intangible assets	**408**	3,587
Write off of intangible assets	**5**	569
Interest on preference shares	**97**	97
Decrease in loans and receivables	**472,599**	1,058,314
(Increase) / decrease in trade and other receivables	**(67)**	4,552
Decrease in deferred income	**(4,988)**	(39,064)
Decrease in trade and other payables	**(8,149)**	(10,173)
(Decrease) / increase in provisions	**(16,517)**	5,826
Cash inflow from operations	**254,675**	396,437

The amount of interest paid and received (excluding that recognised in interest income) during the year was £0 6 million (2009 £77 2 million) and £0 5 million (2009 £5 8 million) respectively

The amount of preference dividends paid during the year was £nil (2009 £nil)

20 Pension obligations

The Company is a member of the Cattles group, which, throughout 2010, operated both a defined benefit pension plan and a number of defined contribution pension plans

Defined benefit post-employment benefits plan
The defined benefit pension plan provides benefits based on final salary for certain of the Company's current and former employees The assets of the scheme are held in a separate trustee-administered fund Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method The scheme was closed to new applicants from 1998 and closed to future service accrual in May 2010, following consultation with active members

The retirement benefit obligation is recognised in the Balance Sheet of the sponsoring employer, Cattles, the ultimate parent of the Company during 2010

Further details on the valuation of the total retirement benefit obligation, including the assumptions upon which the valuation is based, are set out in the financial statements of Cattles

Subsequent to the Group's restructuring becoming effective on 2 March 2011, the Company, and other Group members, are no longer participating employers in the defined benefit plan

Defined contribution post-employment benefit plans
The staff cost recognised for the year ended 31 December 2010 in relation to defined contribution pension plans is £1 0 million (2009 £1 0 million)

21 Operating lease arrangements

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

	2010		2009	
	Land and buildings £'000	**Motor vehicles £'000**	Land and buildings £'000	Motor vehicles £'000
Future lease payments				
Within one year	**2,698**	**941**	4,145	2,451
Between one and five years	**1,936**	**332**	11,358	1,814
After five years	**43**	**-**	5,672	-
	4,677	**1,273**	21,175	4,265
The following lease payments were recognised in the Income Statement during the year				
Lease payments	**3,727**	**3,444**	6,064	3,176

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 by considering and authorising recommendations proposed by the Credit Committee, which is responsible for evaluating credit policy and product profitability Oversight is provided by the Risk Committee

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

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 therefore differ from Company's Balance Sheet

2010	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	**Total £'000**
Other borrowings	-	250	508	33	8	-	-	**799**
Obligations under finance leases and hire purchase contracts	-	1,321	2,434	1,845	-	-	-	**5,600**
Intra-group borrowings	2,373,328	-	-	-	-	-	-	**2,373,328**
Total	**2,373,328**	**1,571**	**2,942**	**1,878**	**8**	**-**	**-**	**2,379,727**

22 Financial risk management (continued)

Liquidity risk – borrowings (continued)

2009	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	Total £'000
Other borrowings	-	241	724	724	-	-	-	1,689
Obligations under finance leases and hire purchase contracts	-	1,343	4,680	3,452	1,927	-	-	11,402
Intra-group borrowings	2,538,694	-	-	-	-	-	-	2,538,694
Total	2,538,694	1,584	5,404	4,176	1,927	-	-	2,551,785

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

	2010 £'000	2009 £'000
Gross lease payments		
Not later than one year	**3,755**	6,023
Later than one year but not more than five	**1,845**	5,379
	5,600	11,402
Future finance charges	**(352)**	(867)
Present value of minimum lease payments	**5,248**	10,535

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

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
2010	**1,162**	**2,477**	**1,623**	**506**	**84**	55	**43**	**5,950**
2009	1,799	4,797	4,944	3,550	2,759	1,919	5,672	25,440

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

At 31 December 2010, intra-group borrowings were repayable on demand, however they were subject to the agreements contained in the SEA and were not subject to repayment whilst the SEA continued On 2 March 2011, the Group's restructuring became effective, replacing the SEA An overview of the restructuring is set out on pages 4 to 10 of the Directors' Report

22 Financial risk management (continued)

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

23 Contingent liabilities

The Company, together with other companies in the Cattles group, has entered into an unsecured multilateral bank guarantee The directors consider that the fair value attached to the guarantee is £nil (2009 £nil)

At 31 December 2010, the Company was an obligor of the Cattles SEA with the Group's key financial creditors At 31 December 2010, the Company had a contingent liability, as the Company could have been required, along with other participating companies, to contribute to any settlement to the lenders of certain syndicated and bilateral bank facilities to Cattles, certain guaranteed hedging counterparties, certain unguaranteed hedging counterparties and holders of certain private placement notes and bonds issued by Cattles The SEA was terminated with effect from 2 March 2011, the date that the Group's restructuring became effective Details of the restructuring are set out on pages 4 to 10 of the Directors' Report

Throughout 2010, the Company was a participating employer in the Cattles group defined benefit pension plan The Company has a contingent liability in the deficit on the pension scheme of £nil as at 31 December 2010 (2009 £17 6 million) Subsequent to the Group's restructuring becoming effective on 2 March 2011, the Company is no longer a participating employer in the Cattles Group defined benefit pension plan

24 Related party transactions

Ultimate parent undertaking
Throughout 2010, the ultimate parent undertaking and controlling party of the Company was Cattles, registered in England and Wales

The largest and smallest Group in which the 2010 results of the Company are consolidated is that headed by Cattles

As a consequence of the Group's restructuring which became effective on 2 March 2011, details of which are set out in the Directors' Report, Bovess Holding Limited is now the Company's ultimate parent undertaking, although the directors consider there to be no ultimate controlling party

Related party transactions
During the year the Company entered into a number of related party transactions with its ultimate and immediate parent companies and its fellow subsidiary undertakings, as outlined below in the narrative and the following table

- The Company has borrowings from Cattles, for which a financing charge was levied each month This charge was based upon the ultimate parent's average cost of borrowing
- 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 paid a management fee to Cattles in relation to receiving certain central services, such as internal audit This management fee was calculated on a cost incurred basis
- The Company levied management charges for the provision of IT services to Cattles and 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
- The Company administered the payroll of the Cattles group Payroll costs were recharged to the Cattles and fellow Group companies The Company did not make any charge for providing these services

Notes to the financial statements for the year ended 31 December 2010 (continued)

24 Related party transactions (continued)

	2010 £'000	2009 £'000
Repayment of funds	**(167,266)**	(420,121)
Inter-company finance charge	**105,516**	142,013
Debt collection charges	**3,739**	1,441
Management fee – central services	**865**	1,737
Management charge – IT services	**283**	1,332
Office rental	**746**	789
Related party suppliers		
AlixPartners Limited	**3,659**	1,155
Collinson Grant Limited	**574**	58
HAP Limited	**227**	-
Meadway Consulting Limited	**365**	-

Receivables due from and payables to Cattles and the immediate parent companies and fellow subsidiary undertakings are disclosed in notes 10 and 13 respectively

Amounts included in trade and other payables (note 14) in respect of the related party suppliers were AlixPartners Limited £nil (2009 £nil), Collinson Grant Limited £nil (2009 £58,099), HAP Limited £nil (2009 £nil) and Meadway Consulting Limited £nil (2009 £nil)

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

	2010 £'000	2009 £'000
Short-term employee benefits	**3,247**	3,324
Post-employment benefits	**60**	279
	3,307	3,603

Key management are the directors of the Company and members of the Company's Executive Committee

Excluding the directors, as at 31 December 2010, who are compensated by another Company, 209,737 shares were notionally held in respect of key management at 31 December 2010 (2009 415,686) in respect of share incentive arrangements During the year no shares (2009 nil) were awarded to key management under these schemes

Notes to the financial statements for the year ended 31 December 2010 (continued)

25 Post balance sheet events

On 31 January 2011, Cattles announced that, at both a Court Meetıng and a General Meetıng of Cattles Shareholders held earlıer that day ın connectıon wıth the recommended acquısıtıon of Cattles by Bovess by way of a scheme of arrangement ın accordance wıth Part 26 of the Companıes Act 2006 (the 'Scheme'), both resolutıons were passed by the requısıte majorıtıes of Cattles Shareholders

On 1 February 2011, Cattles announced that, at the Court-convened meetıngs of the credıtors of Cattles, the Company and Ewbanks held earlıer that day ın connectıon wıth the proposed restructurıngs of Cattles, the Company and Ewbanks by way of schemes of arrangement ın accordance wıth Part 26 of the Companıes Act 2006 (the 'Credıtor Schemes'), all the necessary resolutıons were passed by the relevant classes of theır respectıve credıtors by the requısıte majorıtıes Completıon of the restructurıng remaıns subject to the satısfactıon of other condıtıons, ıncludıng the Court sanctıonıng the Cattles shareholder scheme (the 'Shareholder Scheme') and the Credıtor Schemes

On 28 February 2011, Cattles announced that the Hıgh Court of Justıce of England and Wales (the 'Court') had sanctıoned the scheme of arrangement to effect the recommended proposal for the acquısıtıon of Cattles by Bovess and sanctıoned the schemes of arrangement between each of Cattles, the Company and Ewbanks and certaın of theır respectıve credıtors All of these schemes of arrangement were expected to become effectıve shortly, subject to the satısfactıon of certaın condıtıons

On 2 March 2011, Cattles announced that the scheme of arrangement to effect the recommended proposal for the acquısıtıon of Cattles by Bovess had become effectıve Cattles also announced that the schemes of arrangement between each of Cattles, the Company and Ewbanks and certaın of theır respectıve credıtors had become effectıve In addıtıon, an applıcatıon had been made to the UK Lıstıng Authorıty requestıng the cancellatıon of the lıstıng of Cattles shares on the Offıcıal Lıst as well as tradıng of Cattles shares on the London Stock Exchange's maın market for lısted securıtıes Cancellatıon was expected to take place by 8 00 a m on Monday 7 March 2011 The consıderatıon of 1p per Cattles share to be paıd by Bovess to Cattles shareholders pursuant to the acquısıtıon was expected to be despatched (ın the case of certıficated holders of Cattles shares) or settled ın CREST (ın the case of uncertıficated holders of Cattles shares) by 16 March 2011 An overvıew of the key elements of the restructurıng ıs set out above on pages 4 to 10

On 7 March 2011 Cattles' shares were de-lısted from the London Stock Exchange and ıt was re-regıstered as a prıvate lımıted company On 5 Aprıl 2011 Cattles' debt securıtıes (bonds) were de-lısted