

Annual report and financial statements Mobile Money Limited

For the Year Ended 31 December 2018



Company No. 03609486

Company Information

Company registration number	03609486
Registered office	St Crispins House Duke Street Norwich England NR3 1PD
Directors	A C Turner P J Hollander R J Lingard A T Evans
Company secretary	A Richardson
Auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditors 30 Finsbury Square London EC2A 1AG

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Strategic report

The directors present their report and the financial statements for the year ended 31 December 2018.

Principal activities

The Company is a subsidiary of Norfolk Capital Limited. The Company's principal activity during the year was the provision of short-term personal secured loans in the United Kingdom.

Business review and future developments

2018 saw the company post a profit before tax of £247,000 (2017: loss of £614,000) and saw its loan book grow by 12% in the year to £5,800,000. In 2018, the company has increased the number of logbook loans written by 17% from utilising both brands (Mobile Money and AutoMoney). The value of loans written in the year increased by 13% but the average loan slightly reduced from £1,747 in 2017 to £1,692 in 2018.

During 2018, the company entered into a funding facility to fund the growing loan book. The facility term runs to July 2021 with a funding limit of £4.0m.

Management is focused on delivering growth by increasing market share in the logbook loan market and pursuing new markets and opportunities associated with motor finance whilst maintaining high standards in product offering, customer service and compliance.

Key performance indicators

The key performance indicators ("KPIs") used to monitor and manage the Company's performance are set out below:

	2018	2017	Definition, method of calculation and analysis
Loan book	£5.8m	£5.2m	Loans to customers net of provision for bad and doubtful debts. There was 12% growth in the year which was in line with management's growth strategy.
Gross margin	70%	53%	Gross margin is the ratio of gross profit to turnover expressed as a percentage. This has improved following the acquisition of the AutoMoney loan book and the subsequent increase in income.
Operating profit/(loss) on ordinary activity before tax	£0.2m	£(0.6)m	The year on year improvement in operating profit/(loss) is attributable to the increase in income associated with the acquisition of the AutoMoney loan book in 2017 and the growth in the overall logbook loan book in 2018.

Principal risks and uncertainties

The Company's objective is to manage appropriately all of the risks that arise from its activities. Risk management is a fundamental part of the Company's business activity and is an essential component in its planning process. Risk oversight and ownership sits with the Board of Directors who regularly review the key risks.

Strategic report

Principal risks and uncertainties (continued)

The principal risks and uncertainties (including financial risks) impacting the Company are considered below:

Economic risk

The Company has an exposure to economic risk in respect of its trading performance and the recoverability of its loan assets. There is the risk that an unexpected deterioration in the economy will increase unemployment which will impact the level of arrears in the Company's loan book resulting in an impact on profitability. Management monitor the Company's exposure to economic risk through reviews of economic forecasts and careful monitoring of the arrears experience and trends in the loan book.

Credit/counterparty risk

The Company has an exposure to credit risk in respect of loans and receivables, which is the risk the customer will be unable to pay the amounts in full as they fall due. Provisions are made to provide for losses that have been incurred or are foreseen at the balance sheet date in respect of loans advanced prior to the balance sheet date. Management take account of several factors when calculating the aforementioned provisions, which include changes in economic conditions and industry experience of delinquency rates. The Directors carefully manage the Company's exposure to credit risk, through the Company's lending processes across the credit lifecycle and through carefully managing pricing and customer quality.

Liquidity risk

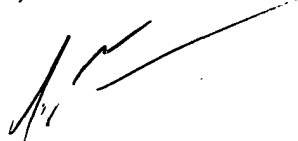
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company actively monitors its cash flows and expected liabilities and ensures that it has the resources to meet its liabilities as they fall due at all times.

Regulatory risk

The Company is regulated by the Financial Conduct Authority, and as such is exposed to regulatory compliance risk. As a regulated business, the Company places significant importance on managing its operations in a way that effectively manages the risk of fines or censure through non-compliance with laws and regulations. The Directors identify all material legal and regulatory requirements and relevant voluntary codes and standards affecting the Company and work with business areas to determine how it applies. This is supported by review mechanisms to ensure compliance with material regulatory and legal obligations. The Board is responsible for ensuring compliance with laws and regulations.

The Directors will revisit the appropriateness of the above policies should the Company's operations change in size and nature.

By order of the board:



A Richardson
Company Secretary
21 March 2019

Directors' report

Results and dividends

The Company recorded a profit for the financial year of £201,000 (2017: loss of £494,000). The directors recommended the payment of a dividend of £nil (2017: £1,500,000).

Directors

Details of the directors who held office during the year and up to the date of signing of these financial statements are given below:

A C Turner
P J Hollander
R J Lingard
A T Evans

Directors' qualifying third party indemnity provisions

During the year and up to the date of the signing of these financial statements, the Company had in force an indemnity provision in favour of the Directors of Mobile Money Limited against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

Directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Directors' report

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board:



A Richardson
Company Secretary
21 March 2019

Independent Auditor's Report to the Member of Mobile Money Limited

Opinion

We have audited the financial statements of Mobile Money Limited (the 'company') for the year ended 31 December 2018 which comprise the statement of income and retained earnings, the balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Independent Auditor's Report to the Member of Mobile Money Limited

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Independent Auditor's Report to the Member of Mobile Money Limited

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Who we are reporting to

This report is made solely to the company's member 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 member 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 member for our audit work, for this report, or for the opinions we have formed.



Marcus Swales (Senior Statutory Auditor)

For and on behalf of
Grant Thornton UK LLP
Chartered Accountants
Statutory Auditor
London
21 March 2019

Statement of income and retained earnings

	Note	2018 £'000	2017 £'000
Turnover	5	4,575	2,826
Cost of sales		(1,395)	(1,328)
Gross profit		<u>3,180</u>	<u>1,498</u>
Administrative expenses		(2,933)	(2,112)
Operating profit/(loss) and profit/(loss) on ordinary activities before taxation	6	<u>247</u>	<u>(614)</u>
Tax on profit/(loss) on ordinary activities	9	<u>(46)</u>	<u>120</u>
Profit/(loss) for the financial year		<u>201</u>	<u>(494)</u>
Retained earnings at 1 January		1,832	3,826
Dividends paid	10	-	(1,500)
Retained earnings at 31 December		<u><u>2,033</u></u>	<u><u>1,832</u></u>

The results for the current and comparative year relate entirely to continuing operations.

The Company has no recognised gains and losses other than the results above and therefore no separate statement of other comprehensive income has been presented.

There is no difference between the result on ordinary activities before taxation and the result for the financial year stated above and their historical cost equivalents.

The accompanying accounting policies and notes form part of these financial statements.

Balance sheet

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	11	53	34
Current assets			
Debtors: amounts falling due within one year	12	3,972	3,645
amounts falling due after more than one year	12	2,043	1,934
Cash at bank and in hand		492	382
		<u>6,507</u>	<u>5,961</u>
Creditors: amounts falling due within one year	13	(927)	(4,162)
Net current assets		<u>5,580</u>	<u>1,799</u>
Total assets less current liabilities		5,633	1,833
Creditors: amounts falling due after more than one year	14	(3,599)	-
Net assets		<u>2,034</u>	<u>1,833</u>
Capital and reserves			
Called up share capital	16	1	1
Profit and loss account	17	2,033	1,832
Total shareholders' funds		<u>2,034</u>	<u>1,833</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by



A C Turner
Director
21 March 2019

Mobile Money Limited
Registration number 03609486

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements

1. Company information

Mobile Money Limited ("the Company") provides short-term personal secured loans in the United Kingdom.

The Company is a private company limited by shares, incorporated and domiciled in the UK. The address of its registered office is St Crispins House, Duke Street, Norwich, NR3 1PD.

2. Statement of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting policies

3.1 Basis of accounting

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom and with the Companies Act 2006. The principal accounting policies, which have been consistently applied to all the years presented, unless otherwise stated, are set out below.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Going concern

The directors of Norfolk Capital Limited, the Company's ultimate parent undertaking, have prepared projections in respect of the Group's cash requirements, which include the Company, and ongoing compliance with the terms of the Group's bank funding facilities. These projections have been assessed to determine the level of cash headroom available such as to enable the non-loan lending businesses to pay their debts as they fall due and to allow the Group to continue to operate within the financial and non-financial covenants contained in the Group's banking facility agreements, taking account of the mitigating courses of action available to the Group to enhance the level of such headroom.

The directors are required to make an assessment of the Company's ability to continue to trade as a going concern. The directors have given this matter careful consideration and, in light of the reduction in administration expenses from the closure of the branches, the improvement in lending experienced in the year and the acquisition of AutoMoney's loan book, have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Notes to the financial statements

Accounting policies (continued)

3.3 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cashflows, on the basis that it is a qualifying entity and its ultimate parent undertaking, Norfolk Capital Limited, includes the Company's cashflows in its own consolidated financial statements. The Company has also taken advantage of exemptions from disclosing key management personnel compensation in total.

3.4 Revenue recognition

Interest income

Interest income is recognised in the profit and loss account 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 accounting period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset to the net carrying amount of the financial asset.

3.5 Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

3.6 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Notes to the financial statements

Accounting policies (continued)

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except that unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

3.7 Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation and residual values

Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

- | | |
|--------------------------|---------------------|
| • Furniture and fixtures | 4 years |
| • Leasehold improvements | over the lease term |
| • Computer software | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Notes to the financial statements

Accounting policies (continued)

Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in administrative expenses.

3.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

3.9 Cost of sales

Cost of sales comprises cost of loan issue (bill of sale and sign dox costs), marketing costs, commissions payable and impairment charges in respect of customer loans.

3.10 Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

(ii) Contingencies

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Notes to the financial statements

3.11 Financial Instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Loans to customers are subject to a variety of interest arrangements, including fixed or variable interest rates. The directors consider that the loans to customers meet the definition of “basic” under FRS 102 and they have been accounted for as such.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows, discounted at the asset’s original effective interest rate, where applicable. The impairment loss is recognised in profit or loss.

A monthly review of the Company’s loan book is undertaken on a line by line basis to determine whether or not a balance is impaired. The provision methodology assesses all customer accounts which are at least three months in arrears and compares the outstanding balance to any equity in the security provided, taking account of the most realistic return at resale. A specific bad debt provision is made for these balances. A further provision is then applied to the remainder of the book using historic “flow through” data.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Notes to the financial statements

Accounting policies (continued)

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires or when the terms of an existing financial liability are 'substantially modified'.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.12 Distributions to equity holders

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

3.13 Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

4 Critical accounting estimates and estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Impairment of loans to customers

The Company makes an estimate of the likely losses on loans to customers and provides for this loss. The provision represents management's best estimate of all losses incurred at the balance sheet date. The estimates are based on the likelihood of a customer defaulting and the subsequent loss on default. See note 12 for the net carrying amount of the loan debtors.

Notes to the financial statements

5. Turnover

Turnover represents interest and fees on loan advances received and receivable in the United Kingdom.

6. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2018 £'000	2017 £'000
Impairment of customer loans	597	371
Depreciation of tangible assets	19	21
Operating lease rentals – land and buildings	55	61
Services provided by the Company's auditors:		
Fees payable for the audit	9	10
Fees payable for other services – tax compliance	4	4
	<u>4</u>	<u>4</u>

7. Employees and directors

Staff costs, including director's remuneration, were as follows:

	2018 £'000	2017 £'000
Wages and salaries	1,381	1,173
Social security costs	158	136
Other pension costs	63	34
	<u>1,602</u>	<u>1,343</u>

The monthly average number of employees of the Company (including Directors) during the year was as follows:

	2018 Number	2017 Number
By activity:		
Sales and administration	<u>50</u>	<u>40</u>

Directors' emoluments were as follows:

	2018 £'000	2017 £'000
Emoluments	200	141
Company pension contributions to money purchase schemes	18	10
	<u>218</u>	<u>151</u>

Notes to the financial statements

7. Employees and directors (continued)

Emoluments of the highest paid Director:

	2018 £'000	2017 £'000
Total emoluments (excluding pension contributions)	114	90
Company pension contributions to money purchase schemes	12	8
	<u>126</u>	<u>98</u>

Two directors are employed by the Company; the others are employed by the Norfolk Capital Group's management services company, Norfolk Capital Management Services Limited, in respect of whom £nil of emoluments (2017: £nil) are payable for their services to the Company. Two directors (2017: two) received contributions to a defined contribution pension scheme.

8. Interest expense

Interest payable and similar charges

	2018 £'000	2017 £'000
Included in cost of sales:		
Interest payable on bank loans	122	-
Interest payable on loans from the parent undertaking	190	165
	<u>312</u>	<u>165</u>

9. Income tax

a) Tax charge/(credit) included in statement of income

	2018 £'000	2018 £'000
Current tax:		
Corporation tax payable	36	-
Group relief receivable for current year	-	(132)
Adjustment to prior year group relief receivable	-	(1)
Total current tax	<u>36</u>	<u>(133)</u>
Deferred tax:		
Origination and reversal of timing differences	10	14
Adjustment in respect of prior year	-	1
Change in tax rate	-	(2)
Total deferred tax	<u>10</u>	<u>13</u>
Tax on profit on ordinary activities	<u>46</u>	<u>(120)</u>

Notes to the financial statements

9. Income tax (continued)

b) Reconciliation of tax charge/(credit)

The tax assessed on the loss on ordinary activities for the year is lower than (2017: lower than) the rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit / (loss) on ordinary activities before taxation	247	(614)
Profit / (loss) on ordinary activities by rate of tax in the UK	47	(118)
Change in tax rate	(1)	(2)
	<u>46</u>	<u>(120)</u>

c) Tax rate changes

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. This change was substantively enacted on 6 September 2016 and deferred tax has therefore been provided for at 17% in these financial statements.

10. Dividends

	2018 £'000	2017 £'000
Interim cash dividend paid: £nil (2017: £1,500) per £1 share	-	1,500

11. Tangible assets

	Furniture and fixtures £'000	Leasehold improvements £'000	Computer software £'000	Total £'000
Cost				
At 1 January 2018	185	-	66	251
Additions	10	28	-	38
Disposals	(4)	-	-	(4)
At 31 December 2018	191	28	66	285
Accumulated depreciation				
At 1 January 2018	160	-	57	217
Charge for the year	15	1	3	19
Disposals	(4)	-	-	(4)
At 31 December 2018	171	1	60	232
Net book amount				
At 31 December 2018	20	27	6	53
At 31 December 2017	25	-	9	34

Notes to the financial statements

12. Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Customer loans	3,729	3,248
Amounts owed by group undertakings – group relief	-	132
Other debtors	6	2
Deferred tax	50	60
Prepayments and accrued income	187	203
	<u>3,972</u>	<u>3,645</u>
Amounts falling due after more than one year:		
Customer loans	2,043	1,934
Total debtors	<u>6,015</u>	<u>5,579</u>

Amounts owed by the parent undertaking and group undertaking are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Deferred tax

The movement in the deferred taxation asset during the year is as follows:

	2018 £'000	2017 £'000
Asset brought forward	60	73
Charged to the profit and loss account (note 9a)	(10)	(13)
Asset carried forward	<u>50</u>	<u>60</u>

The above deferred tax assets relate to fixed assets timing differences.

13. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Loan from ultimate parent undertaking	600	3,850
Corporation tax	16	-
Other creditors	94	198
Accruals and deferred income	217	114
	<u>927</u>	<u>4,162</u>

The loan note of £3,850,000 was due to be repaid by 30 June 2018. Subsequent to the year end this was formally extended through to 30 June 2019. The loan note carries interest at a margin over one month LIBOR.

Notes to the financial statements

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

	2018 £'000	2017 £'000
Bank loans	<u>3,599</u>	<u>-</u>
Maturity of financial liabilities	2018	2017
	£'000	£'000
Within two to five years	<u>3,599</u>	<u>-</u>
	<u>3,599</u>	<u>-</u>

The balance above is shown net of unamortised issue costs of £101,000 (2017: £nil), which are being amortised over the life of the revolving credit facility.

The Company has a revolving credit facility, the facility allows the Company to borrow up to £4,000,000 and is repayable on 31 July 2021. As at 31 December 2018, the amount drawn was £3,700,000 (2017: £nil).

The facility is charged at a margin over LIBOR, and is secured via a fixed and floating charge over the assets of the Company.

Notes to the financial statements

15. Financial instruments

a) Summary

The Company has the following financial instruments:

	Note	2018 £'000	2017 £'000
Financial assets that are debt instruments measured at amortised cost:			
- Loans to customers	12	5,772	5,182
- Other debtors	12	6	2
		<u>5,778</u>	<u>5,184</u>
Financial liabilities measured at amortised cost:			
- Loan from parent undertaking	13	(600)	(3,850)
- Other creditors	13	(94)	(198)
- Bank loans	14	(3,599)	-
		<u>(4,293)</u>	<u>(4,048)</u>

b) Allowance account for customer loan impairments

Loans to customers is represented by the gross loans to customers, offset by an impairment provision. A monthly review of the Company's guarantor loan book is undertaken on a line by line basis to determine whether or not a balance is impaired. The provision methodology assesses the book using historic "flow through" rates, less recovery rates based on collection activity for accounts with arrears greater than six months.

The movement on the impairment provision during the year is analysed as:

	2018 £'000	2017 £'000
Opening balance at 1 January	856	549
Provision acquired in respect of purchased loan book	671	117
Impairment losses recognised	605	383
Reversals of impairment losses	(8)	(12)
Amounts written off	(316)	(181)
Closing balance at 31 December	<u>1,808</u>	<u>856</u>

Notes to the financial statements

15. Financial instruments (continued)

c) Risks arising from financial instruments

i) Interest rate risk

The Company offers fixed rates products and faces a risk of loss arising from adverse movements in interest rates. Interest on drawings under its funding facility is charged at variable rates linked to LIBOR. The Company constantly monitors LIBOR rates and the latest market forecast for LIBOR and this is used to inform management on pricing.

ii) Credit risk

The Company has an exposure to credit risk in respect of cash, loans and receivables, which is the risk that the bank/customer as appropriate will be unable to pay the amounts in full as they fall due. Provisions are made to provide for losses that have been incurred or are foreseen at the balance sheet date in respect of loans advanced prior to the balance sheet date. Management carefully manage the Company's exposure to credit risk, through its lending processes across the credit lifecycle and through carefully managing the pricing, and customer quality.

The Company secures its loans via a bill of sale against the customer's vehicle. The vehicle's valuation is ascertained at the time of underwriting using published second hand car valuations. The Company's policy is that loans to new customers should not exceed 75% of the value of the vehicle. The Company also ensured that loans are affordable, suitable to the customer and that the customer is credit worthy. The credit worthiness is assessed manually through the review of past credit performance supplied by credit reference agency.

The credit risk in respect of cash is limited because the counterparties are banks with high credit ratings assigned by international ratings agencies.

The Company funds its operations through retained earnings, a loan facility from the ultimate parent undertaking and a bank loan. The Company's objectives are to ensure that it has sufficient funds at all times to meet its liabilities as they fall due.

As at 31 December 2018, all of the customer loans that were past due had been impaired. The gross customer loans and impairment provision is analysed as:

	2018 £'000	2017 £'000
Loans to customers (gross)	7,580	6,038
Impairment provision	(1,808)	(856)
Loans to customers (net)	<u>5,772</u>	<u>5,182</u>

Of the gross loan book of £7,580,000 (2017: £6,038,000), loans totalling £3,716,000 (2017: £2,200,000) were more than 30 days in arrears.

iii) Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company actively monitors its cash flows and expected liabilities and ensures that it has the resources to meet its liabilities as they fall due at all times. A revolving credit facility from the bank ensures that demand from customers is met.

Notes to the financial statements

16. Called up share capital

	2018 £'000	2017 £'000
1,000 allotted, called up and fully paid ordinary shares of £1 each	<u>1</u>	<u>1</u>

17. Reserves

Profit and loss account

The profit and loss reserve includes all current and prior year retained profits and losses.

18. Operating lease commitments

The Company had the following minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £'000	2017 £'000
Payments value:		
Within one year	84	31
Between one and five years	<u>145</u>	<u>-</u>
	<u>229</u>	<u>31</u>

19. Controlling parties

The immediate and ultimate parent undertaking is Norfolk Capital Limited, which is registered in the United Kingdom. The smallest and largest group for which consolidated financial statements are prepared is Norfolk Capital Limited. Copies of the Norfolk Capital Limited consolidated financial statements can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Norfolk Capital Limited and its subsidiary companies are controlled by A C Turner, who is both a director of all Group companies and also the majority shareholder of Norfolk Capital Limited.

20. Events after the end of the reporting period

In January 2019, the Company acquired the business and certain assets of a hire purchase lender, in order to broaden its vehicle-based lending proposition to customers.