

PRA Group (UK) Limited

Annual report and financial statements

Registered number 04267803

31 December 2019

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Company information

Directors

R O James
P M Sjolund
S E Daws
T D Kirk

Secretary

Wells House,
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Bromley
Kent
BR1 1LT

Auditor

KPMG LLP
15 Canada Square
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E14 5GL

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Strategic Report

The Directors present their strategic report for the year ended 31 December 2019.

Principal activities and review of the business

The principal activity of the company is the acquisition and servicing of consumer debt portfolios. The company is a wholly owned subsidiary of PRA Group Inc., a company incorporated in USA (listed on Nasdaq), which the directors consider to be the ultimate parent and controlling party.

The principal key performance indicator on which the Directors monitor the progress of the business is the level of income generated by portfolios. Portfolio income decreased by approximately £11,996,000. This decrease is comprised of higher interest income of approximately £17,154,000, and change in portfolio fair value amount of approximately £29,150,000. This decrease in portfolio income is partially explained by the realised loss of £20,727,000 in 2019 compared to a realised loss in 2018 of £846,000. The decrease in profit in the current year is also impacted by an increase in interest expense of £9,191,000 year-over-year.

Future developments

The Directors have a continuous focus on improving processes, enhancing efficiency and synergies, and improving collections in a fully compliant manner across the business. The aim is to find the optimal balance for operating within the current economic climate.

Treasury policies and foreign currency risk

The company does not have a formal treasury team; however leverages the experience of the European and Global treasury team, and there is a defined financial risk policy within the PRA Group Inc.

The company finances its activities through cash and balances available from group undertakings. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities.

The company does not enter into interest rate swaps or forward currency contracts. The company does not trade in derivative financial instruments.

The company has relationships with associated group companies outside of the UK and it trades in currencies denominated other than Sterling. As a result the company is exposed to foreign currency risk which is managed by the group's defined financial risk policy.

Interest rate risk

The company does not have any external debt. Borrowings from group undertakings bear interest, which is calculated based on a base interest rate linked to LIBOR plus country specific risk premiums.

Credit risk

Credit risk is the risk that a customer or counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The company's principal activity is the acquisition and management of underperforming consumer loan portfolios; therefore, the Company are exposed to significant credit risk. Most portfolios by their nature are impaired on acquisition and the Company continually monitors cash collections and the carrying values are impaired where the underlying performance does not meet expectations. The risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types. A pricing review process is in place which includes key members from all areas of the business.

Liquidity risk

The company mitigates liquidity risk by managing cash generation by its operations, applying cash collection targets and setting authorisation limits for investment.

The company's funding strategy is to not rely on external finance, but to utilise group funding.

Strategic Report *(continued)*

Legislative risk

The services and products that PRA Group (UK) Limited offers in its respective geographical markets are subject to strict local laws and regulations, including requirements for lending, ownership and debt collection licences, as well as legislation concerning personal data protection. Any legislative changes concerning consumer credit may affect the company's earnings, market position and range of products and services.

Competitive risk

The Core portfolio underwriting process includes both quantitative analytical modelling and qualitative judgment-based analysis that considers the effects of the origination, servicing, and collection history of the portfolios we price. We believe the combination of our deep sample of purchase data, our sophisticated analytical modelling, and the underwriting judgment gained from thousands of portfolios allows us to accurately price the associated risks. Furthermore, the advanced analytical techniques which we employ operationally enable us to better segment our customers, tailor our interactions with them using their preferred medium and offer solutions tailored to each individual's circumstances thus giving us a significant competitive advantage.

Future outlook

As an established business in the UK collections industry, we believe PRA Group (UK) Limited is well placed to continue to maintain and develop its range of debt collection services and clients in the future. Specifically, with the significant uncertainty surrounding the COVID-19 pandemic, we performed stress tests to assess the potential impact of what we consider to be the worst-case scenario. Based on that, we have reached the conclusion that our business model is resilient to the foreseen consequences from COVID-19. However, we continue to monitor the developments and are mindful of the changing political and economic environment.

Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the; likely consequences of any decisions in the long-term; interests of the Company's employees; need to foster the Company's business relationships with suppliers, customers and others; impact of the Company's operations on the community and environment; desirability of the Company maintaining a reputation for high standards of business conduct; and need to act fairly as between members of the Company.

The directors of PRA Group (UK) Limited are fully aware of their responsibilities to promote the success of the Company in accordance with section 172. In discharging its duties, the board has considered the factors above as well as any other factors which they considered relevant to the decision being made.

The board's aim is to make sure that its decisions are consistent, by considering PRA Group's strategic priorities and having a governance framework in place for key decision-making that takes into account relevant stakeholders.

On behalf of the board



P M Sjölund
Director

Date: 16 December 2020

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2019.

Directors

The Directors who served the company during the year and to the date of this report were as follows:

P M Sjolund
R O James
S E Daws
T D Kirk (appointed 29 May 2019)

Statement on Employees

PRA Group (UK) Ltd is an equal opportunity employer. For us, equal opportunity means engaging in employment practices that are objective while treating our most valuable asset - our employees - with fairness and impartiality. PRA Group (UK) Ltd is committed to ensuring that all prospective applicants for employment are treated in this manner throughout the recruitment process and all employees have the opportunity for advancement and development, regardless of race, colour, nationality or ethnic origin, gender, marital status, age, disability, religion or sexual orientation.

PRA Group (UK) Ltd believes in fostering an environment that is committed to high performance, acknowledges the value of diversity, and provides development opportunities when needed through proprietary training programs. PRA Group (UK) Ltd provides reasonable workplace adjustments for new entrants into the Company, as well as for existing employees who become disabled during their employment.

PRA Group (UK) Ltd has established clear standards of communication to provide information to our employees about important developments in the company, and to generate on an on-going basis an understanding of our vision, mission, values, strategy and business performance. Employees also have a mechanism to communicate their view and opinions about working for PRA Group via providing input and responding to an annual Employee Engagement survey.

Going concern

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to continue to operate on this basis within available facilities. As a consequence the directors believe that the company is well placed to manage its financial position successfully for twelve months from the date of the approval of the accounts of the company and prepares these financial statements on a going concern basis. Additionally there is no intention to terminate the operations of the company within twelve months of the date of the approval of the accounts of the company.

Specifically, with the significant uncertainty surrounding the COVID-19 pandemic, we performed stress tests to assess the potential impact of what we consider to be the worst-case scenario. Based on that, we have reached the conclusion that our business model is resilient to the foreseen consequences from COVID-19. However, we continue to monitor the developments and are mindful of the changing political and economic environment. In Q1 2020, PRA Group Europe Holding extended its loan facility in which the company participates to 19 May 2023 and provided a letter of support to the company stating its intention to provide adequate financial support as is necessary to ensure its continuing operation.

Statement on financial risk management and exposure to price risk, credit risk, liquidity risk, and cash flow risk

The Company is exposed to market risk, liquidity risk, credit risk and other price risk, as outlined in the Strategic Report.

Statements on principal activities and business objectives and activities

The principal activity of the company is the acquisition and servicing of consumer debt portfolios.

Developments in the Group's business during the year, and an indication of likely future developments, are outlined in the Strategic Report on pages 1 and 2, which form part of this Directors' Report.

Dividends

The Directors do not recommend the payment of a dividend (2019: £nil).

Post Balance sheet event

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

To date the pandemic has not had a material impact on operations. However, with the significant uncertainty, we performed stress tests to assess the potential impact of what we consider to be the worst-case scenario. Based on that, we have reached the conclusion that our business model is resilient to the foreseen consequences from COVID-19. However, we continue to monitor the developments and are mindful of the changing political and economic environment.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Reappointment of Auditor

KPMG LLP was reappointed as statutory auditor of the company in the year. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board



P M Sjölund
Director

Date: 16 December 2020

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 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 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent¹;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;²
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

¹ Paragraph 13 of Part II of Schedule 1 to each of the Companies Act 2006 The Small Companies and Groups (Accounts and Reports) Regulations 2008 ([SI 2008 No. 409](#)) and the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ([SI 2008 No. 410](#)) require that the amount of any item "must be determined on a prudent basis".

² Large companies only.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRA GROUP (UK) LIMITED

Opinion

We have audited the financial statements of PRA Group (UK) Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.



Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Satish Iyer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
Date: 18 December 2020

Profit and Loss Account
for year ended 31 December 2019

| | Note | 2019 £000 | 2018 £000 |
|---|------|-----------------|---------------|
| Portfolio income | 2 | 78,357 | 90,353 |
| Other income | | 1,489 | 405 |
| Cost of sales | 3 | (15,131) | (11,717) |
| | | <hr/> | <hr/> |
| Gross profit | | 64,715 | 79,041 |
| Administrative expenses | 4 | (25,692) | (24,607) |
| | | <hr/> | <hr/> |
| Operating profit | | 39,023 | 54,434 |
| Interest receivable | 6 | 192 | 168 |
| Interest payable | 7 | (64,331) | (55,524) |
| | | <hr/> | <hr/> |
| (Loss)/Profit on ordinary activities before taxation | | (25,116) | (922) |
| Tax (expense)/credit on ordinary activities | 8 | 4,390 | 76 |
| | | <hr/> | <hr/> |
| (Loss)/Profit for the financial year | | (20,726) | (846) |
| | | <hr/> | <hr/> |

All of the activities of the company are classed as continuing.

The company has no other items of comprehensive income other than the results for the year as set out above.

The notes on pages 11 to 24 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2019

| | Notes | 2019 £000 | 2018 £000 |
|--|-------|------------------|------------------|
| Non-Current assets | | | |
| Intangible assets | 9 | 448 | 849 |
| Tangible assets | 10 | 665 | 642 |
| Long-term investment | 18 | - | 400 |
| Deferred tax asset | 17 | 4,672 | 282 |
| | | <u>5,785</u> | <u>2,173</u> |
| Current assets | | | |
| Debtors | 12 | 3,058 | 8,362 |
| Finance receivables | | 801,676 | 655,932 |
| Cash at bank and in hand | | 18,117 | 13,671 |
| | | <u>822,851</u> | <u>677,965</u> |
| Creditors: amounts falling due within one year | 13 | <u>(6,800)</u> | <u>(11,698)</u> |
| Net current assets | | <u>816,051</u> | <u>666,267</u> |
| Total assets less current liabilities | | <u>821,836</u> | <u>668,440</u> |
| Creditors: amounts falling due after more than one year | 14 | <u>(783,553)</u> | <u>(609,431)</u> |
| Provisions | 15 | <u>(842)</u> | <u>(842)</u> |
| Net assets | | <u>37,441</u> | <u>58,167</u> |
| Capital and reserves | | | |
| Called up share capital | 16 | 400 | 400 |
| Share premium | | 34,622 | 34,622 |
| Profit and loss account | | 2,419 | 23,145 |
| Equity shareholder's funds | | <u>37,441</u> | <u>58,167</u> |

These financial statements were approved by the board of directors on 16 December 2020 and were signed on its behalf by:



P M Sjölund
Director

Company registered number: 04267803

Statement of Changes in Equity

| | Called up share capital £000 | Share premium £000 | Profit and loss account £000 | Total equity £000 |
|---|------------------------------------|--------------------------|------------------------------------|-------------------------|
| Balance at 1 January 2018 | 400 | - | 23,991 | 24,391 |
| Total comprehensive income for the period | | | | |
| Loss for the period | - | - | (846) | (846) |
| Total comprehensive income for the period | - | - | (846) | (846) |
| Transactions with owners, recorded directly in equity: | | | | |
| Issue of shares | - | - | - | - |
| Total contributions by owners | - | 34,622 | - | 34,622 |
| Balance at 31 December 2018 | 400 | 34,622 | 23,145 | 58,167 |

| | Called up share capital £000 | Share premium £000 | Profit and loss account £000 | Total equity £000 |
|---|------------------------------------|--------------------------|------------------------------------|-------------------------|
| Balance at 1 January 2019 | 400 | 34,622 | 23,145 | 58,167 |
| Total comprehensive income for the period | | | | |
| Loss for the period | - | - | (20,726) | (20,726) |
| Total comprehensive income for the period | - | - | (20,726) | (20,726) |
| Transactions with owners, recorded directly in equity: | | | | |
| Issue of shares | - | - | - | - |
| Total contributions by owners | - | - | - | - |
| Balance at 31 December 2019 | 400 | 34,622 | 2,419 | 37,441 |

During the year no shares were issued.

Notes

(forming part of the financial statements)

1 Accounting policies

PRA Group (UK) Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company’s ultimate parent undertaking, PRA Group Inc., includes the Company in its consolidated financial statements. The consolidated financial statements of PRA Group Inc. are prepared in accordance with Generally Accepted Accounting Principles as adopted by the U.S. Securities and Exchange Commission, are available to the public and may be obtained from 120 Corporate Boulevard, Norfolk, Virginia 23502, USA. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of PRA Group Inc. include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except as described in the following notes.

1.2 Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for twelve months from the approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. As noted in note 21, the Company is party to a group financing arrangement and has pledged assets towards this arrangement. The Directors have considered this arrangement in its decision to adopt a going concern basis.

Notes (continued)

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price plus attributable transaction costs. Trade and other creditors are recognised at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Investment in subsidiaries, joint controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are carried at cost less impairment.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

1.5 Tangible fixed assets (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Fixtures and fittings 2 - 10 years
- Equipment 5 - 10 years
- Computer Equipment 3 - 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Notes (continued)

1 Accounting policies (continued)

1.6 Intangible assets and goodwill

Other intangible assets (software)

Software assets that are acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful life of software is 5 years.

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 5 years.

1.7 Finance receivables

The finance receivables consist of purchased, credit-impaired unsecured loans and non-derivative financial assets without fixed or determinable payments that are not quoted in an active market. These receivables are initially recognised at the purchase price and associated direct transaction costs in accordance with FRS 102.11.2.C. The loans are subsequently measured at amortised cost by using the effective interest method through portfolio income.

The Company acquires portfolios of accounts that have experienced deterioration of credit quality between origination and the Company's acquisition of the accounts. The amount paid for a portfolio reflects the Company's determination that it is probable the Company will be unable to collect all amounts due according to an account's contractual terms.

The Company considers expected prepayments and estimates the amount and timing of expected principal, interest and other cash flows (expected at acquisition) for each acquired portfolio based on the Company's proprietary models to determine the fair value at acquisition.

The Company considers evidence of impairment for these assets at both an individual asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance against the balance of finance receivables. When the Company considers that there is no realistic prospect of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Notes (continued)

1 Accounting policies (continued)

1.8 Impairment excluding finance receivables and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.9 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Share Based Payments

The Company determines share based compensation expense for all share-based awards based on the vesting date fair value.

1.10 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.11 Portfolio income

Portfolio income represents income from the yield from purchased loan portfolios. Purchased loan portfolios are financial instruments that are recognised at fair value at the purchase date that equals the price. They are subsequently measured at amortised cost using the effective interest rate method.

Upward revaluations ('write ups') are increases to carrying values, discounted at the effective interest rate, of the acquired debt portfolios as a result of reassessments to their estimated future cash flows and are recognised in the income from portfolios line within revenue. Any subsequent reversals to write-ups and any write-downs are also recorded in this line.

The company also derives revenue from invoiced or accrued value of services provided by the company which represent the agreed commission paid by customers on cash collections from portfolios owned by third parties. These amounts are recorded as other income on the Profit and Loss account.

Notes (continued)

1 Accounting policies (continued)

1.12 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which 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. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Portfolio income

| | 2019 £000 | 2018 £000 |
|--|---------------|---------------|
| Income from purchased loan portfolios | 91,653 | 74,499 |
| Impairment losses from purchased loan portfolios | (13,296) | 15,854 |
| | <u>78,357</u> | <u>90,353</u> |

Other income incorporate revenue from agreed commission paid by customers on cash collections on portfolios owned by third parties and dividend in species from PF1 UK Limited.

All portfolio income and other income originates from the United Kingdom.

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

| | 2019 £000 | 2018 £000 |
|-----------------------------|--------------|--------------|
| Commission charges | 10,309 | 6,996 |
| Loss on sale of fixed asset | 32 | 3 |
| Foreign exchange losses | 41 | 9 |

Commission charges represent the cost of debt collection on portfolios owned by the company but collected by external debt collectors. When the company serves as an external debt collector this commission is recorded in other income as stated in Note 2.

Auditor's remuneration:

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Audit of these financial statements | 137 | 77 |
| Amounts receivable by the company's auditor and its associates in respect of: | | |
| Taxation services | 1 | 1 |
| Other services | 7 | 7 |

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|--------------------------------|---------------------|------------|
| | 2019 | 2018 |
| Operations | 4 | 3 |
| Collections and administration | 327 | 320 |
| | <u>331</u> | <u>323</u> |

The aggregate payroll costs of these persons were as follows:

| | 2019 £000 | 2018 £000 |
|---|---------------|---------------|
| Wages and salaries | 12,363 | 12,611 |
| Social security costs | 1,375 | 1,376 |
| Contributions to defined contribution plans | 431 | 408 |
| Other benefits | 98 | 93 |
| | <u>14,267</u> | <u>14,488</u> |

5 Directors' remuneration

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Directors' remuneration | 1,052 | 1,181 |
| Amounts receivable under long term incentive scheme | 114 | 258 |
| Defined contribution pension scheme | 39 | 35 |
| Severance pay | - | 315 |
| | <u></u> | <u></u> |

The remuneration of the highest paid director was £458,779 (2018: £257,564). The aggregate amount of remuneration and amounts receivable under long term incentive scheme of the highest paid director was £78,341 (2018: £114,053).

Notes *(continued)*

6 Interest receivable and similar income

| | 2019 | 2018 |
|--|-------------|-------------|
| | £000 | £000 |
| Bank deposit interest | 1 | 1 |
| Other interest | 191 | 167 |
| | <hr/> | <hr/> |
| Total interest receivable and similar income | 192 | 168 |
| | <hr/> | <hr/> |

7 Interest payable and similar expenses

| | 2019 | 2018 |
|---|---------------|---------------|
| | £000 | £000 |
| Interest payable on intercompany loans | 64,178 | 54,987 |
| Bank charges | 153 | 503 |
| External interest cost | - | 34 |
| | <hr/> | <hr/> |
| Total interest payable and similar expenses | 64,331 | 55,524 |
| | <hr/> | <hr/> |

Notes (continued)

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| <i>Current tax</i> | | |
| Current tax on income for the period | - | - |
| Adjustments in respect of prior periods | - | (38) |
| | <hr/> | <hr/> |
| Total current tax | - | (38) |
| | <hr/> | <hr/> |
| <i>Movement in Deferred Tax</i> | | |
| Origination and reversal of timing differences | (4,390) | (38) |
| | <hr/> | <hr/> |
| Total deferred tax | (4,390) | (38) |
| | <hr/> | <hr/> |
| Total tax | (4,390) | (76) |
| | <hr/> | <hr/> |

Reconciliation of effective tax rate

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| (Loss)/Profit for the year | (20,727) | (846) |
| Total tax expense/(credit) | (4,390) | (76) |
| | <hr/> | <hr/> |
| (Loss)/Profit excluding taxation | (25,117) | (922) |
| | | |
| Tax using the UK corporation tax rate of 19 % (2018: 19.%) | - | - |
| Other | (4,390) | (38) |
| Group relief | - | - |
| Under provided in prior years | - | (38) |
| | <hr/> | <hr/> |
| Total tax expense/(credit) included in profit or loss | (4,390) | (76) |
| | <hr/> | <hr/> |

The reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This does not have a material impact on the Company's financial statements

Notes (continued)

9 Intangible assets and goodwill

| | Goodwill £000 | Other intangible assets £000 | Acquired rights £000 | Total £000 |
|------------------------|------------------|------------------------------------|----------------------------|---------------|
| Cost: | | | | |
| At 1 January 2019 | 2,333 | 1,959 | - | 4,292 |
| Additions | - | 267 | - | 267 |
| Disposals | - | (420) | - | (420) |
| At 31 December 2019 | <u>2,333</u> | <u>1,806</u> | <u>-</u> | <u>4,139</u> |
| Amortisation: | | | | |
| At 1 January 2019 | 2,053 | 1,389 | - | 3,442 |
| Charge for the year | 280 | (31) | - | 249 |
| At 31 December 2019 | <u>2,333</u> | <u>1,358</u> | <u>-</u> | <u>3,691</u> |
| Net book value: | | | | |
| At 31 December 2019 | <u>-</u> | <u>448</u> | <u>-</u> | <u>448</u> |
| At 31 December 2018 | <u>280</u> | <u>570</u> | <u>-</u> | <u>850</u> |

10 Tangible fixed assets

| | Fixtures & fittings £000 | Equipment £000 | Computer equipment £000 | Total £000 |
|--------------------------|--------------------------------|-------------------|-------------------------------|---------------|
| Cost: | | | | |
| At 1 January 2019 | 1,756 | 173 | 1,722 | 3,651 |
| Additions | 56 | 37 | 246 | 339 |
| Disposals | (1) | - | (456) | (457) |
| At 31 December 2019 | <u>1,811</u> | <u>210</u> | <u>1,512</u> | <u>3,533</u> |
| Depreciation: | | | | |
| At 1 January 2019 | 1,521 | 80 | 1,408 | 3,009 |
| Provided during the year | 103 | 21 | 159 | 283 |
| Disposals | - | - | (424) | (424) |
| At 31 December 2019 | <u>1,624</u> | <u>101</u> | <u>1,143</u> | <u>2,868</u> |
| Net book value: | | | | |
| At 31 December 2019 | <u>187</u> | <u>109</u> | <u>369</u> | <u>665</u> |
| At 31 December 2018 | <u>235</u> | <u>93</u> | <u>314</u> | <u>642</u> |

Notes (continued)

11 Finance receivables

| | 2019 £000 | 2018 £000 |
|---------------------------------|----------------|----------------|
| Portfolios as of 1 January, net | 655,932 | 472,978 |
| Additions | 269,868 | 243,565 |
| Collections in the year | (202,480) | (150,964) |
| Income from portfolios | 78,357 | 90,353 |
| | <u>801,677</u> | <u>655,932</u> |

12 Debtors

| | 2019 £000 | 2018 £000 |
|------------------------------------|--------------|--------------|
| Accounts receivable | 609 | 5,540 |
| Amounts owed by group undertakings | 1,077 | 1,368 |
| Other debtors | 56 | 119 |
| Prepayments | 1,241 | 1,295 |
| Corporation tax | 75 | 50 |
| | <u>3,058</u> | <u>8,362</u> |

13 Creditors: amounts falling due within one year

| | 2019 £000 | 2018 £000 |
|------------------------------------|--------------|---------------|
| Trade creditors | 504 | 4,265 |
| Amounts owed to group undertakings | 786 | 2,645 |
| Corporation tax | - | - |
| Taxation and social security | 369 | 361 |
| Accruals | 4,826 | 4,140 |
| VAT payable | 314 | 287 |
| | <u>6,800</u> | <u>11,698</u> |

Notes (continued)

14 Creditors: amounts falling due in more than one year –Long term loan

| | 2019 £000 | 2018 £000 |
|------------------------------------|--------------|--------------|
| Amounts owed to group undertakings | 783,553 | 609,431 |

On 27 October 2014, the Company signed a loan agreement with the SHCO 54 S.a.r.l, a related party entity and group financier identified on the loan agreement. In the first quarter of 2020, the 6th amendment to the loan agreement extended that agreement onto PRA Group Europe Finance S.a.r.l. The agreement provided that the group financier make available one revolving loan to each of the group subsidiaries, such as PRA Group (UK) Limited.

The loans incur interest on the drawn amount at a rate equivalent to the linked external debt held by the group financier and a group subsidiary specific margin. This margin consists of a risk spread in a relation to the book value of the drawn amount and total equity of the company, as well as a country specific rate.

The maturity date of the loans is also linked to the external debt, which matures on 19 May 2023.

15 Provisions

| | 2019 £000 | 2018 £000 |
|-------------------------|--------------|--------------|
| Dilapidations provision | 842 | 842 |

The provision relates to future dilapidations costs of leasehold property. The provision is expected to be utilised within five years.

16 Called up share capital

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Allotted, called up and fully paid 400,001 Ordinary Shares of £1 each | 400 | 400 |
| Share premium | 34,622 | 34,622 |

17 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | 2019 £000 | 2018 £000 |
|---------------------------------|--------------|--------------|
| Accelerated capital allowances | (139) | (189) |
| Other timing differences | (4,533) | (93) |
| Tax (assets) / liabilities | (4,672) | (282) |
| Net of tax (liabilities)/assets | - | - |
| Net tax (assets) / liabilities | (4,672) | (282) |

Notes (continued)

18 Fixed asset investments

| | Shares in group undertakings £000 |
|----------------------|--|
| <i>Cost</i> | |
| At beginning of year | 400 |
| | <hr/> |
| At end of year | - |
| | <hr/> |

PRA Group (UK) Limited liquidated its wholly owned subsidiary, PF1 UK Limited, in the year ending 31 December 2019.

19 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £430,822 (2018: £407,970).

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | 2019 £000 | 2018 £000 |
|----------------------------|--------------|--------------|
| Less than one year | 852 | 645 |
| Between one and five years | 1,260 | 1,649 |
| | <hr/> | <hr/> |
| | 2,112 | 2,294 |
| | <hr/> | <hr/> |

During the year £ 986,000 was recognised as an expense in the profit and loss account in respect of operating leases (2018: £ 965,000).

21 Contingencies

PRA Group Europe Holding S.à r.l. Luxembourg, Zug Branch, has provided security for loan facilities as part of its banking arrangements. PRA Group (UK) Limited has therefore entered into a debenture charging all the assets and undertakings of the company as security in favour of the parent company's bank in other group entities.

22 Related parties

As a wholly owned subsidiary of PRA Group Inc. the company is exempt from the requirements of FRS102.33 to disclose transactions with other members of the group headed by PRA Group Inc.

Notes (continued)

23 Ultimate parent company and parent company of larger group and related undertakings

The company is a wholly owned subsidiary of PRA Group Inc., a company incorporated in USA (listed on Nasdaq), which the directors consider to be the ultimate parent and controlling party. The company's immediate parent company is PRA Group Europe Holding S.á.r.l.. PRA Group Inc. is the parent of the smallest and largest group for which group financial statements which include the company are prepared. Copies of the group financial statements are available from 120 Corporate Boulevard, Norfolk, Virginia 23502, USA.

The company's related subsidiary undertakings which are stated in note 18. The Company's immediate and ultimate parent company are listed above.

24 Accounting estimates and judgements

Key sources of estimation uncertainty

The company evaluates the recovery of finance receivables using the effective interest rate method to account for loans and receivables. This valuation is based on an analysis of projected cash flows that may prove to be less than anticipated and could lead to reductions in future revenues or the incurrence of allowance charges.

We account for our investment in finance receivables using the effective interest rate method, which involves the use of estimates and the exercise of judgment. These estimates include projections of the quantity and timing of future cash flows and economic lives of our pools of finance receivables. Significant changes in such estimates could result in increased revenue via yield increases which are recognised prospectively or increased allowance charges resulting from decreased cash flow estimates which are recognised immediately.

25 Events after the balance sheet date

The recent outbreak of COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the U.S. and global economies and created uncertainty. Since the initial outbreak was reported, COVID-19 has spread to all countries including United Kingdom. As a result, we have implemented our business continuity plans including remote work practices where possible and have leveraged existing space to follow social distancing guidelines. To date, the pandemic has not prevented our ability to operate the business and we have continued to take steps necessary to minimize impact or disruption. We believe we have sufficient liquidity on hand, or access to the capital markets to provide liquidity, to continue normal business operations. This situation was not prevalent at year end and therefore the Directors consider the outbreak of COVID-19 to be a non-adjusting post balance sheet event.

We continue to monitor the recent outbreak of COVID-19 on our operations and how that may impact our cash flows and our ability to settle debt. As a result of COVID-19, global financial markets have experienced overall volatility and disruptions to capital and credit markets. We believe that funds generated from operations and from cash collections on finance receivables, together with existing cash, available borrowings under our revolving credit facilities, and recent modifications to the terms of those facilities, will be sufficient to finance our operations, planned capital expenditures, forward flow purchase commitments, debt maturities and additional portfolio purchases during the next 12 months. Business acquisitions, adverse outcomes in pending litigation or higher than expected levels of portfolio purchasing could require additional financing from other sources.