

# Pepper (UK) Limited

**Annual Report and Financial Statements**

**For the year ended 31 December 2021**

**Company Registration Number 06548489**



**pepper|advantage**

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# Pepper (UK) Limited

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## Company information

### Directors

Fraser Gemmell  
Gerald McHugh  
Joy Warner  
Cindy Bennison  
Anthony Ray

### Secretary

Mr Roger Lansdowne

### Registered office

Harman House  
1 George Street  
Uxbridge  
Middlesex  
UB8 1QQ

### Bankers

Barclays Bank PLC  
Level 11  
1 Churchill Place  
London  
E14 5HP

### Auditors

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

# Pepper (UK) Limited

## Strategic report

For the year ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021. The directors, in preparing this strategic report have complied with S414C of the Companies Act 2006.

### Business Review

The statement of profit or loss and other comprehensive income for the year is set out on page 10.

The Coronavirus Disease ("COVID-19") pandemic has had a huge impact to all businesses around the globe and the Company is no different. The Company's business model thrives around its primary servicing staff who are predominantly at the end of the phone lines delivering continuous service to all our clients and customers. The business has received excellent feedback in respect of the manner and speed that the Company redeployed the majority of its staff to a working from home environment and the customer service levels it has continued to provide against the backdrop of increased payment holiday requests from customers suffering financial hardship.

Assets under management have increased year on year due to the impact of higher levels of lending seen in 2021, following the lower levels of lending experienced in 2020 as a consequence of COVID-19. Revenue from client servicing activities and recharges to fellow group undertakings has decreased to £28.8 million (2020: £31.6 million) with £0.7 million of this revenue being in respect of one off income in respect of performance and exit fees on the sale of the remaining portion of a loan book which generated £5.5 million of revenue in 2020. During the year the company generated net profit after tax of £1.9 million (2020: £5.5 million) with £0.6 million of the net profit after tax being attributable to the aforementioned sale of the remaining portion of the loan book which generated £4.5 million of net profit after tax in 2020.

The results for the year and the financial position at the year-end were considered satisfactory by the directors who expect growth in future years as the levels of lending are expected to return to more normal levels.

### Key Performance Indicators

	2021	2020
	£	£
Assets under management as at 31 December	17.7 bn	16.2 bn
Revenue - Servicing activities	28.8 m	31.6 m
Net profit after tax	1.9 m	5.5 m

Our primary indicators which are tracked are:

- regulatory capital is reviewed by management on a continual basis to ensure compliance with regulatory capital requirements;
- net profit after tax is reviewed by management on a monthly basis; and
- servicer reports which detail the performance of contract against targets and the achievement of "Conduct Risk" objectives, are reviewed by management on a regular basis. The servicer reports include details of assets under management, cash collections and revenue.

Given the "fee for service" nature of the business, the Company's Directors are of the opinion that analysis using other key performance indicators is not necessary for an understanding of the development, performance or position of the business.

### Section 172 (1) statement and our stakeholders

#### Overview

We report here on how our directors have performed their duty under Section 172 (s.172) of the Companies Act 2006, and this statement reflects the matters to which the directors' must have regard in performing their duty to promote the success of the Company for the benefit of its shareholders, which includes having regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for setting, monitoring and upholding the culture, values, standards, ethics, brand and reputation of the Company to ensure that our obligations to our shareholders, employees, customers and others are met. Management are tasked with the embedding of the desired culture throughout the organisation. The Board monitors adherence to the policies and compliance with corporate governance.

#### Employee engagement

We report here on how our directors have performed their duty under Section 172 (s.172) of the Companies Act 2006, and this statement reflects the matters to which the directors' must have regard in performing their duty to promote the success of the Company for the benefit of its shareholders, which includes having regard, amongst other matters, to:

- staff surveys;
- HR drop-in sessions;
- HR suggestion scheme;
- inviting internal candidates for vacancies;
- town hall presentations;
- CEO lunches; and
- CEO email & Pepper People bulletins.

# Pepper (UK) Limited

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## Strategic report (continued)

For the year ended 31 December 2021

The directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

### Other stakeholder engagement

**Clients:** Our clients and their customers are at the heart of our business. We are focused on responding to their needs as well as building long-term client relationships.

**Communities:** We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships with non-governmental organisations.

**Regulator:** The Board recognises the importance of and maintains an, open and transparent relationship with regulators and other government authorities.

**Shareholder:** The company is a wholly owned subsidiary of Pepper European Servicing Limited whose ultimate holding company is Pepper Global TopCo Limited (PGTCL). The Company maintains strong links and close connections with PGTCL from both the senior management level to departmental levels maintaining open channels of communication and engagement.

**Suppliers:** We operate in conjunction with a wide range of suppliers to deliver services to our clients and their customers. It is vital that we build strong working relationships with our suppliers and intermediaries, around risk management and customer service.

### Key Decisions - impact on stakeholders

With the exception of the decisions made surrounding Covid-19 there were no other key decisions made by the Board during the year.

### Results for the period

The Company's profit for the year after tax was £1.9 million (2020: £5.5 million). As at 31 December 2021, the Company had total assets of £20.8 million (2020: £23.6 million), which includes trade receivables, accrued income, prepayments and other receivables of £4.9 million (2020: £3.8 million) and loans to related parties and receivables due from related parties of £7.0 million (2020: £4.6 million).

### Strategy and future developments

The Company will seek to continue to grow assets under management in the servicing market through the acquisition of new clients and lenders.

### Principal risks and uncertainties

The principal risks and uncertainties of the Company relate primarily to operational risk, market risk (specifically interest rate risk and foreign exchange risk), regulatory risk, liquidity risk and credit risk, the management of which is detailed in notes 4 and 5 of the financial statements.

#### Regulatory risk

This is the risk that the Company is not able to comply with regulatory requirements. The company monitors adherence to its regulatory requirements via its compliance team. The risk is managed via its corporate governance processes, risk and compliance management and reporting processes.

#### Operational risk

Operational risks are inherent in the Company's business as it depends on the ability to process a large number of transactions efficiently and accurately. Losses to the company can result from inadequate or failed internal control processes and systems, human error, fraud or from external events that interrupt normal business operations. The Company has implemented a robust operational risk management policy and framework aimed at identifying processes exposed to operational risk.

These processes are regularly examined to identify, assess and test internal controls aimed at mitigating operational risks. A substantial amount of resource and activity has been dedicated to the on-going maintenance of this operational risk management framework, to developing efficient and effective procedures and processes and to the training of all staff in the areas of risk management.

Approved by the Board on 25 April 2022 and signed on its behalf by:



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Anthony Ray  
Director

# Pepper (UK) Limited

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## Directors' report

### For the year ended 31 December 2021

The directors present their annual report and the financial statements for the year ended 31 December 2021.

#### Directors' of the company

The directors, who held office during the year, and up to the date of this report, except as noted, were as follows:

Richard Klemmer (Resigned 14 January 2022)  
Fraser Gemmell  
Gerald McHugh  
Joy Warner  
Stavros Makaritis (Resigned 30 November 2021)  
Cindy Bennison  
Anthony Ray (Appointed 24 March 2022)

#### Strategy and Business Model

The main activity of the Company is to provide loan administration services to the owners of residential and commercial real estate mortgages. The Company provides full scope loan administration and collection services to a wide range of financial investors and lenders.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

#### Directors qualifying third party indemnity provision :

In accordance with the requirements of section 236 of the Companies Act 2006, qualifying third party indemnity provisions are in force for the benefit of the directors of the company.

#### Employment policies and employee involvement

The Company has a culture of continuous improvement through investment in people at all levels within the Company. The Company is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people.

In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within the Company.

Employees are consulted regularly about changes which may affect them either through regular presentations from the Company's directors and executive management team. These presentations, together with regular Company-wide correspondence and bespoke training programmes, are used to ensure that employees are kept up to date with the business performance of their employer and the financial and economic factors affecting the performance of the Company. Employee feedback is sought through, annual "360 reviews" of management; weekly "drop-in" sessions with some members of the executive team, and regular employee surveys on matters that affect them. As at 31 December 2021, the Company does not have a staff share scheme.

#### Capital resources

The directors consider capital reserves to be adequate. The Company will continue to monitor its capital and funding requirements and maintain a capital base to support the business risks.

#### Dividend

The Company declared and paid a dividend of £4.0 million during the year, and the directors do not propose a dividend after the year end (2020: £2.4 million).

#### Events after the balance sheet date

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected the Company's operations, results or state of affairs, or may do so in future years.

#### Key Risk Development - Coronavirus Disease 2019 ("COVID-19") / Conflict in Ukraine

During 2021, the COVID-19 pandemic continued to have a significant impact on the economy and whilst it remains unclear how the pandemic might evolve through 2022, the follow-on effect of the financial stimulus measures to cope with the pandemic are now coming more into focus including the prospect of interest rate rises, taxation rises and the risk of rising inflation. The Company is relatively insulated from the short-term effects of major disruption such as COVID-19. The Board do not believe there are any issues likely to affect the Going Concern assessment made by the Company.

Increasing geo-political tensions, specifically in relation to the conflict in the Ukraine, and the potential for disruption to energy supplies are an additional source of uncertainty for the financial markets and a trigger for inflation. This is expected to result in higher energy costs for the Company in 2022 and potentially beyond.

# Pepper (UK) Limited

## Directors' report (continued)

For the year ended 31 December 2021

### Environment

#### Streamlined Energy and Carbon Reporting (SECR)

It is noted that the Company meets the SECR criteria and is mandated to meet the requirements as set out in the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

#### Energy efficiency action taken

The Company already has energy saving LED lights and motion activated sensors installed to controlling all the lighting. During the year the company updated and consolidated its storage area network and telephony platform thus, reducing the number of servers required to manage the respective systems. Furthermore the company introduced Wake-on-LAN and has provide remote access solutions for auditors and clients thus negating the need to travel to the Company's offices.

#### Methodology

The report follows the SECR guidance and the GreenHouse Gas (GHG) Reporting Protocol - Corporate Standard as an accepted methodology to meet the mandatory requirements. No additional optional elements have been included at this time.

The UK Governments Greenhouse gas conversion factors have been used to calculate the carbon emissions. The following table demonstrates the GHG Emissions and Energy Usage Data.

#### Greenhouse gas emissions and energy use data

	2021	2020
Energy consumption used to calculate emissions - Electricity (kWh)	634,625	693,485
<b>tCO<sub>2</sub>e</b>		
Emissions from combustion of fuel for transport purposes tCO <sub>2</sub> e (Scope 1)	-	-
Emissions from purchased electricity tCO <sub>2</sub> e (Scope 2, location-based)	129	150
Emissions from combustion of gas tCO <sub>2</sub> e (Scope 2 location-based)	3	2
Emissions from combustion of oil tCO <sub>2</sub> e (Scope 2, location based)	2	8
Emissions from business travel in rental cars or employee owned vehicles where the Company is responsible for purchasing the fuel tCO <sub>2</sub> e (Scope 3)	0	2
Total gross tCO <sub>2</sub> e based on the above	135	162
Intensity ratio: gross tCO <sub>2</sub> e per £1 million of revenue	4.68	5.12

#### Intensity measurement

The Company has chosen tonnes of gross CO<sub>2</sub>e per total £m of revenue as the reported SECR intensity metric. This is a relevant and common business metric and will serve as a consistent comparative for reporting purposes going forward.

### Going Concern

The Board, having made appropriate enquiries, is satisfied that the company has adequate resources to continue operations for a period of 12 months from the date of approval of the financial statements, and it therefore continues to adopt the going concern basis in preparing the financial statements. Based upon their assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet liabilities as they fall due. In making their going concern assessment, the directors have considered a wide range of detailed information relating to present and potential conditions, including projections for profitability, cash flows, capital requirements and capital resources. See note 2 of these financial statements for more details.

### Political and charitable contributions

The Company did not make any political donations in the year (2020:£ Nil). The company did not make any charitable donations in the year. (2020: £2,233).

### Foreign branch operations

The Company does not have any foreign branch operations outside the UK.

### 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

# Pepper (UK) Limited

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## Directors' report (continued)

For the year ended 31 December 2021

### Future Developments

Please refer to the strategic report.

### Independent auditors

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

### Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual 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 are required to prepare the Company's financial statements in accordance with United Kingdom international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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 their profit or loss of the Company for that period. In preparing the Company financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 its financial statements comply with the Companies Act 2006. They 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.

Approved by the Board on 25 April 2022 and signed on its behalf by:



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Anthony Ray  
Director



# Pepper (UK) Limited

## Independent auditor's report to the members of Pepper (UK) Limited

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### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of Pepper (UK) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its Profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of profit or loss and other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

#### 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 Financial Reporting Council's (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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

#### Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

## Independent auditor's report to the members of Pepper (UK) Limited

### 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, and the risk and compliance function about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation, and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. This included Financial Conduct Authority (FCA) requirements.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Revenue invoiced but not yet received, or not yet invoiced: We tested the design and implementation of controls which addressed the risk of inappropriate recognition of revenue not yet paid. In addition, we obtained the population of revenue recognised in the year but unpaid at year-end. For a sample of entries in the population, we obtained and inspected corresponding invoices and post year-end customer payments to bank statement if available. For all samples, we also agreed the revenue recognised to the terms of the underlying contracts held with the customer.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with the FCA and HMRC.

### Report on other legal and regulatory requirements

#### 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 have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

# Pepper (UK) Limited

## Independent auditor's report to the members of Pepper (UK) Limited

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### Matters on which we are required to report by exception

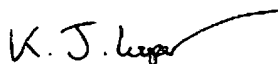
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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 respect of these matters.

### Use of our report

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.



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Kieren Cooper, FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

25 April 2022

## Pepper (UK) Limited

### Statement of profit or loss and other comprehensive income For the year ended 31 December 2021

	Note	2021 £000	2020 £000
Revenue	6	28,792	31,558
Operating expenses		(5,638)	(4,855)
Staff Costs	7	(19,114)	(18,192)
Depreciation and amortisation expense		(2,192)	(1,889)
Operating profit	9	1,848	6,622
Finance income	10	583	507
Finance costs	11	(190)	(280)
Profit before tax		2,241	6,849
Income tax expense	13	(372)	(1,306)
Profit and total comprehensive income for the year		1,869	5,543

Statement of profit or loss and other comprehensive income has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the statement of profit or loss and other comprehensive income and therefore no statement of recognised gains or losses is presented.

The notes on pages 14 to 34 form an integral part of the Financial Statements.

# Pepper (UK) Limited

## Statement of financial position As at 31 December 2021

	Note	2021 £000	2020 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	551	711
Right of use assets	15	1,884	2,579
Intangible assets	16	3,674	4,807
Deferred tax assets	13	207	135
		<u>6,316</u>	<u>8,232</u>
<b>Current assets</b>			
Trade and other receivables	17	11,880	8,387
Cash and cash equivalents	18	2,589	6,995
		<u>14,469</u>	<u>15,382</u>
<b>Total assets</b>		<u>20,785</u>	<u>23,614</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	19	180	180
Share premium		-	-
Equity contribution from parent		3,504	3,504
Retained earnings		8,645	10,734
<b>Total equity</b>		<u>12,329</u>	<u>14,418</u>
<b>Non-current liabilities</b>			
Employee benefit liabilities	21	72	88
Long term lease liabilities		1,562	2,240
Provisions	23	293	286
		<u>1,927</u>	<u>2,614</u>
<b>Current liabilities</b>			
Current portion of long term lease liabilities		713	836
Trade and other payables	20	1,858	2,200
Income tax liability		433	1,251
Employee benefit liabilities	21	3,001	2,097
Deferred income		514	198
Provisions	23	10	-
		<u>6,529</u>	<u>6,582</u>
<b>Total liabilities</b>		<u>8,456</u>	<u>9,196</u>
<b>Total equity and liabilities</b>		<u>20,785</u>	<u>23,614</u>

The notes on pages 14 to 34 form an integral part of the Financial Statements.

The Company is domiciled, incorporated and registered in England and Wales under company registration number 06548489

The financial statements on pages 10 to 34 were approved by the Board of Directors on 25 April 2022 and were signed on its behalf by:



Anthony Ray  
Director

## Pepper (UK) Limited

### Statement of changes in equity For the year ended 31 December 2021

	Share capital	Share premium	Equity contribution from parent	Retained earnings	Total equity
	£000	£000	£000	£000	£000
Balance at 1 January 2020	180	-	3,444	7,591	11,215
Profit and total comprehensive income for the year	-	-	-	5,543	5,543
Dividends paid	-	-	-	(2,400)	(2,400)
Share based payment transactions	-	-	60	-	60
At 31 December 2020	180	-	3,504	10,734	14,418

	Share capital	Share premium	Equity contribution from parent	Retained earnings	Total equity
	£000	£000	£000	£000	£000
Balance at 1 January 2021	180	-	3,504	10,734	14,418
Profit and total comprehensive income for the year	-	-	-	1,869	1,869
Dividends paid	-	-	-	(3,958)	(3,958)
At 31 December 2021	180	-	3,504	8,645	12,329

The notes on pages 14 to 34 form an integral part of the Financial Statements.

# Pepper (UK) Limited

## Statement of cash flows For the year ended 31 December 2021

	Note	2021 £000	2020 £000
<b>Cash flows from operating activities</b>			
Profit for the year before tax		2,241	6,849
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	14 & 16	1,474	1,073
Depreciation on right of use assets	15	718	816
Increase/(decrease) in deferred income		316	(215)
Share-based payment expense		-	60
Interest expense on leases	10	190	227
		<u>4,939</u>	<u>8,810</u>
<b>Working capital adjustments</b>			
(Increase)/decrease in trade and other receivables		(1,402)	3,767
Decrease in trade and other payables and lease liabilities		(306)	(652)
Increase/(decrease) in employee benefit liabilities	21	888	(1,778)
Increase in provisions	23	17	17
Cash generated from operations		<u>4,136</u>	<u>10,164</u>
Income tax paid		<u>(1,262)</u>	<u>(255)</u>
Net cash flow generated from operations		<u>2,874</u>	<u>9,909</u>
<b>Cash flows from investing activities</b>			
Acquisitions of property plant and equipment	14	(112)	(353)
Acquisitions of right of use assets	15	(23)	(262)
Acquisition of intangible assets	16	(69)	(4,975)
Proceeds from sale of property plant and equipment	14	-	-
(Increase)/decrease in loans to fellow group undertakings		(2,091)	4,858
Net cash flow used in investing activities		<u>(2,295)</u>	<u>(732)</u>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities		(991)	(645)
Decrease in loans from fellow group undertakings		(36)	(368)
Ordinary dividends paid		(3,958)	(2,400)
Net cash flow used in financing activities		<u>(4,985)</u>	<u>(3,413)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(4,406)</u>	<u>5,764</u>
Cash and cash equivalents at 1 January		<u>6,995</u>	<u>1,231</u>
Cash and cash equivalents at 31 December		<u>2,589</u>	<u>6,995</u>

The notes on pages 14 to 34 form an integral part of the Financial Statements.

# Pepper (UK) Limited

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## Notes to the financial statements

For the year ended 31 December 2021

### 1 . General information

The activities of the Company are to provide loan administration services in relation to regulated and unregulated mortgage contracts and commercial real estate contracts along with related services which are incidental to activities of a mortgage lender or administrator. The Company is authorised and regulated by the Financial Conduct Authority ("FCA"). The Company is a private limited company and is limited by shares, incorporated and domiciled in England and Wales. The address of its registered office is Harman House, 1 George Street, Uxbridge, Middlesex, England, UB8 1QQ. All shares in the Company are owned by Pepper European Servicing Limited (formerly known as Pepper Homeloans Limited), a company registered in England and Wales.

The financial statements comprise a statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows and related notes.

### 2 . Going concern

The Company's business activities, together with the factors likely to affect its future performance are set out in the strategic report. The Company has considerable financial resources together with a diversified client base. The directors believe the Company is well placed to manage its business risks successfully.

The Going Concern assessment is based upon the 2022 forecast overlayed with a series of stressed scenarios and the impact of the profitability and cashflows of the business. Even in the most severe of these scenarios, management is able to take appropriate action to reduce the Company's cost base and mitigate the impact of reduced cash inflows and remain liquid throughout the going concern period.

In the event of the UK experiencing another "lock down" as a consequence of COVID-19, management already have fully operational remote working capabilities in place for all staff.

Therefore, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### 3 . Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

#### Statement of compliance

The financial statements have been prepared in accordance with United Kingdom international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### Basis of presentation

The financial statements have been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 5.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. Any changes to assumptions may have a significant impact on the financial statements for the period over which the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Company's financial statements, therefore, present the financial position and results fairly.

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 3.

#### Changes in accounting policies

The following amendments to existing standards and IFRIC interpretations have been issued and endorsed by the UK, are effective from 1 January 2021.

**IFRS9, IAS 39, IFRS 7, IFRS 4 and IFRS 16:** In August 2020 the AISB published the Board's response to the ongoing reform of inter-bank offered rates (IBOR) and other interest rate benchmarks. The amendments complement those issued in 2019 and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform.

**IFRS16:** In May 2020, the IASB published Covid-19-Related Rent Concessions (Amendment to IFRS 16). The pronouncement amended IFRS 16 Leases to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.



# Pepper (UK) Limited

## Notes to the financial statements For the year ended 31 December 2021

### 3 . Accounting policies (continued)

#### Changes in accounting policies (continued)

The following new standards and amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the company's financial statements:

- IFRS 17, Insurance Contracts;
- amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework;
- amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use;
- amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Costs of Fulfilling a Contract;
- *annual Improvements* to IFRSs 2018-2020 Cycle;
- amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies;
- amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates;
- amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current.

The above amendments are not expected to have a material impact on the company's financial statements. The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

#### Foreign currency translation

##### Functional and presentation currency

Items included in the financial statements of the Company are measured in Pound Sterling, being the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Pound Sterling.

##### Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the relevant transactions.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at period-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

All foreign exchange gains and losses recognised in the statement of profit or loss and other comprehensive income are presented net within the corresponding item.

##### Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Leasehold improvements: Term of the lease (3 - 5 years)
- Fixtures, fittings and equipment: Over 3 - 5 years on a straight-line basis

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

##### Leases

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

##### Finance lease

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined an incremental borrowing rate is used.

### 3 . Accounting policies (continued)

#### Leases (continued)

Such assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of the lease obligation is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

#### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of other intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Amortisation on Company's intangible assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Acquired software: Amortised on a straight-line basis over 3 years.
- Internally generated software: Amortised on a straight-line basis over 5 years. Further details are disclosed in note 16.

#### Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### Revenue recognition

The Company earns all material income from contracts with customers, which are recognised from the following major sources:

- loan administration servicing fees;
- fees charged to related parties;
- commission; and
- advisory fees.

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a service to a customer.

# Pepper (UK) Limited

## Notes to the financial statements For the year ended 31 December 2021

### 3 . Accounting policies (continued)

#### Loan Administration Servicing Fees

The Company provided administration services of various mortgage products for specialised business operations. Such services are recognised as a performance obligation satisfied over time, because the customer simultaneously receives and consumes all of the benefits of the bundle of loan administration services provided, on a daily basis. The directors have assessed that the output method, is an appropriate measure of progress towards complete satisfaction of these performance obligations. The contracts are bespoke to each client, so the output method for each contract is based on a combination of the relevant outputs for each contract including, but not limited to; value of loans under management, number of loans under management, days loans serviced in a period, cash and collected in period. Payment for the loan administration servicing fees are due from the customer on monthly or quarterly basis, and there is little judgement required to determining the transaction price of the performance obligation.

#### Fees charged to related parties

The Company receives fees for providing a bundle of resource and support services to fellow subsidiary companies. Such services are recognised as a performance obligation satisfied over time, because the customer simultaneously receives and consumes all of the benefits of the resource and support services provided. The directors have assessed that the input method, is an appropriate measure of progress towards complete satisfaction of these performance obligations, because the contracts are on a cost-plus basis. The input method is based on the costs incurred by the Company plus an arms' length mark up.

#### Commission

The Company receives insurance commission when the Company arranges Lender Insurance Only (LIO) insurance in place of the customers own cover to protect the Company from uninsured secured property loss risks. The commission income is recognised over time whilst the insurance policy is on risk and the Company has a right to receive payment, and to ensure the customer complies with the terms of the loan the Company is servicing. The commission income is recognised at a point in time when the insurance policy initiated, the customer starts to receive the benefit of the service, and the Company has a right to receive payment. Under the contract terms the Company is obliged to refund the commission, when a policy is cancelled within 12 months. The Company uses its accumulated historical experience to estimate the number of refunds using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of refunds over previous years.

#### Advisory Fees

The Company provided advisory services to customers, which are distinct from the bundle of services earned within the loan administration servicing fees. The advisory services involve providing a unique one-off service, creating a bespoke process or implementing system configuration that meets the customers' requirements. These fees are recognised at a point in time when the customer accepts service was completed successfully, the customer starts to receive the benefit of the service, and the Company has a right to receive payment. There is little judgement required to determine the transaction price as the amount is agreed before the advisory work starts.

#### Practical Exemptions

The Company has taken advantage of the practical exemptions: not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less; and to expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

#### Expenses

Expenses incurred have been recognised on an accrual basis.

#### Financial Assets

The Company measures its financial assets as amortised cost as defined per IFRS9. The Company does not have any financial assets that meet the definition of Fair Value through Profit or Loss or Fair Value through Other Comprehensive Income. The Company's accounting policy for amortised cost is as follows:

#### Financial Assets at amortised cost

The Company's financial assets measured at amortised cost comprise; trade receivables, loans to related parties, receivables due from related parties, other receivables and cash on hand and in bank, in the statement of financial position.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### 3 Accounting policies (continued)

#### Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

#### Intercompany loans and receivables

These assets arise principally from loans to fellow subsidiaries, but also arise from provision of services to fellow subsidiaries where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value and subsequently measured at amortised cost using the Effective Interest Rate (EIR).

#### Impairment of financial assets

The Company recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company recognises lifetime ECL for all trade receivables using the simplified approach. The expected credit losses on these financial assets are estimated using the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Having considered the credit rating of the overall group, in addition to the geographical distribution of individual counterparties, the directors have determined that the probability of default is sufficiently low such that the ECL for intercompany loans is immaterial (see note 3 critical accounting estimates and judgements). Because all financial assets are viewed as performing there were no movements in expected credit losses between lifetime ECL and 12-month ECL for any financial assets, and as such the change in the gross carrying amounts of the financial assets, had an immaterial impact on the loss allowance.

#### Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

# Pepper (UK) Limited

## Notes to the financial statements For the year ended 31 December 2021

### 3 . Accounting policies (continued)

#### Significant increase in credit risk (continued)

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors in full; and
- when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the control of the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises the asset to the extent of its continued involvement. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

#### Financial Liabilities

The Company classifies its financial liabilities as other financial liabilities as that reflects the purpose for which the liability was acquired. The Company does not have any financial liabilities that are in the category of fair value through profit or loss. Other financial liabilities include trade and other payables, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

#### Current income tax

Current income tax liabilities for the current period are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the United Kingdom.

#### Value added tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of value added tax included.

Receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

#### Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax assets are recovered.

# Pepper (UK) Limited

## Notes to the financial statements For the year ended 31 December 2021

### 3 Accounting policies (continued)

#### Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past events and it is more probable or not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

#### Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

#### Equity contribution from Parent

Equity-settled transactions that have vested were recorded as Equity contributions from Parent and are measured at the exercise price of the shares issued.

#### Critical accounting judgements and key sources of estimation uncertainty

The Company's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management's judgement, which are made in the course of preparation of the financial statements.

The Company determines estimates and assumptions that affect the reported amounts of assets and liabilities for the next financial period. All estimates and assumptions required are in conformity with IFRSs are best estimates undertaken in accordance with the applicable accounting standards, combined with management's estimates and judgements, which are made in the course of the preparation of the financial statements.

#### Accounting judgements

Management believe there have been no critical accounting judgements made during the year.

#### Accounting estimates

In terms of accounting for leases the company applies judgement in evaluating the lease term, it considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. For leases of premises, the following factors are normally the most relevant:

- if any leasehold improvements are expected to have a significant remaining value, the company is likely to extend.
- otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Information about the key accounting judgements at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed in the following notes:

- Note 3 - Useful lives of items of property, plant and equipment;
- Note 3 - Useful lives of items of right of use assets;
- Note 3 - Useful lives of items of purchased software and internally generated software;
- Note 3 - ECL is measured as an allowance equal to lifetime ECL for trade receivables and intercompany loans and receivables for stage 1, stage 2 and stage 3. Per IFRS 9, ECL's are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. The Company's directors do not expect a difference between the 12-month ECL and the lifetime ECL, because all financial assets are short term (i.e. less than 12 months).

#### Key sources of estimation uncertainty:

In terms of accounting for leases, when the company cannot readily determine the interest rate implicit in the lease, it uses the incremental borrowing rate (IBR) provided by Group to measure lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over similar terms which requires estimations when no observable rates are available. The company estimated the IBR of 6.15% by using market interest rates and adjusting with entity specific estimates such as currency and country risk.

	As at 31 December 2021		As at 31 December 2020	
	+100bp £000	-100bp £000	+100bp £000	-100bp £000
Impact of a 100bp interest rate change on the profit and loss pre tax	(30)	34	(39)	44

**Notes to the financial statements**  
**For the year ended 31 December 2021**

The Board of directors, senior management and FCA approved persons oversee the financial, regulatory, compliance and operational performance of the business. There are a number of sub-committees in place which have clear delegated authorities and documented terms of reference. The sub-committees meet periodically and provide regular reports to the Board.

The risk management function reports to the Board via the Risk Management Committee. The risk department has carried out a forward-looking process for identifying and assessing risks, evaluating controls, establishing thresholds for risk and controls, and determining the appropriate level of risk mitigation. A firm wide register details risks facing the firm across all business areas and is measured by the firm using a series of key risk indicators to highlight potential areas of risk.

Each indicator is given a red, amber or green rating based on an approved methodology. Residual risks deemed as high, are specifically reported to the Risk Management Committee on a regular basis. Controls are identified and tested for design and operational performance and remediation plans are established with principal risk owners for any identified control gaps or deficiencies. A firm wide issues log has been developed and is maintained to highlight any potential risk management and control failures.

An internal audit function provides independent assurance to the Board with respect to the performance of the firm's control environment compared to the Board's stated risk and control management objectives.

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while meeting capital requirements imposed by the Financial Conduct Authority (FCA). The Company's overall strategy remains unchanged from 2020.

The capital structure of the Company consists of issued share capital, share premium, retained earnings and equity contributions from parent.

The Company's risk management committee reviews the capital structure on a monthly basis. As part of this review, the committee reviews the FCA's capital requirement against the Company's total capital resources. The Company targets sufficient excess capital for the existing business and the expected growth of the business.

This note presents information about the company's exposure to financial risks and the company's management of capital.

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced income from the Company's interest bearing financial assets and liabilities. The Company is exposed to interest rate risk with regard to intra-group borrowings. The Company is not exposed to interest rate risk in relation to the mortgage loans being serviced. All cash holdings are held in current accounts. The company has intra-group borrowings and undrawn bank facilities.

Interest received on other intercompany loans and receivables fluctuates based upon the standard groups' lending margin over base rate. The effect of a 100-basis point movement in this lending margin is as follows:

		Profit or loss
	Increase	Decrease
	£000	£000
<b>As at 31 December 2021</b>		
Intercompany Loans and receivables	59	(59)
		Profit or loss
	Increase	Decrease
	£000	£000
<b>As at 31 December 2020</b>		
Intercompany Loans and receivables	38	(38)

The interest rate risk for cash held at bank are deemed immaterial.

# Pepper (UK) Limited

## Notes to the financial statements

For the year ended 31 December 2021

### 5 Financial risk review (continued)

#### Liquidity risk

The Company's definition of liquidity risk is the risk that a Company is unable to fund assets or meet obligations as they fall due under normal and stressed market conditions. The Company employs continuous cash flow forecasting techniques with a view to managing liquidity risk. The Company maintains a minimum buffer of capital in the business in order to fulfil its short term liabilities and manage its working capital. The Company has access to group funding lines with Pepper Finance (H73) Limited. Management continuously reviews these daily cash positions and appropriate action is taken. The contractual maturities of the Company's financial liabilities are as follows:

	Carrying amount £000	Undiscounted amount £000	Within 1 month £000	Greater than 1 month but within 3 months £000	Greater than 3 months but within 1 year £000	Between 1 and 5 years £000
<b>As at 31 December 2021</b>						
Trade and other payables	1,038	1,038	594	167	277	-
Long term lease liabilities	2,275	2,870	-	249	589	2,032
Employee benefit liabilities	3,073	3,073	629	2,372	-	72
<b>As at 31 December 2020</b>						
Trade and other payables	1,463	1,463	524	127	812	-
Long term lease liabilities	3,076	3,830	-	249	748	2,833
Employee benefit liabilities	2,185	2,185	571	866	660	88

#### Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Company operates within an international group and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Australian Dollars and Euros.

The Company's currency positions and exposures are monitored by management on a regular basis. As at 31 December, the carrying value of the Company's net financial assets/(liabilities) held in individual foreign currencies expressed in Pound Sterling were as follows:

	2021 £000	2020 £000
Australian Dollar	(435)	(139)

Australian Dollar exchange rate as at 31 December 2021: 1.863 (2020: 1.772)

	2021 £000	2020 £000
Euro	-	(645)

Euro exchange rate as at 31 December 2021: 1.191 (2020: 1.117)

A strengthening or weakening of the Australian Dollar/Euro by 10% against Sterling at 31 December 2021 would have affected the measurement of financial instruments denominated in a foreign currency and increased or decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Profit or loss		Equity	
	Strengthening £000	Weakening £000	Strengthening £000	Weakening £000
<b>As at 31 December 2021</b>				
Australian Dollar	40	(43)	40	(43)
Euro	-	-	-	-
<b>As at 31 December 2020</b>				
Australian Dollar	13	(14)	13	(14)
Euro	59	(65)	59	(65)

#### Market risk

With the exception of foreign exchange risk and interest rate risk the Company is not exposed to any other market risks.



# Pepper (UK) Limited

## Notes to the financial statements For the year ended 31 December 2021

### 5 . Financial risk review (continued)

#### Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's clients or market counterparties fail to fulfil their contractual obligations to the Company. The Company has credit terms of 30 days and has determined that the credit risk is minimal in relation to the majority of the debtors. The company is not exposed to credit risk in relation to the mortgage loans being serviced. In order to minimise credit risk, the directors review the financial assets on a monthly basis, and trade receivables and intercompany loans and receivables are reviewed by a senior executive on a weekly basis to actively manage credit risk before it becomes more than 30 days overdue.

As at 31 December 2021, the Company's maximum exposure to credit risk arises from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

As part of the credit risk mitigation, monthly trade debtor reports are submitted to the Risk Management Committee for review and any overdue balances are escalated to senior management.

The Company's current credit risk grading framework comprises the categories in the table as follows. Per the accounting policy for Financial Assets the Company always recognises lifetime ECL for trade receivable and intercompany loans and receivables (refer to note 3).

The tables below detail the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

Category	Description	Basis for measurement
Performing	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit impaired
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

			Gross carrying amount £000	Loss allowance £000	Net carrying amount £000
<b>As at 31 December 2021</b>					
Cash and cash equivalents	Performing	Lifetime ECL	2,589	-	2,589
Trade and other receivables	Performing	Lifetime ECL	4,084	-	4,084
Loans to related parties	Performing	12-month ECL	5,914	-	5,914
Receivables due from related parties	Performing	Lifetime ECL	1,070	-	1,070
			<u>13,657</u>	<u>-</u>	<u>13,657</u>
<b>As at 31 December 2020</b>					
Cash and cash equivalents	Performing	Lifetime ECL	2,589	-	2,589
Trade and other receivables	Performing	Lifetime ECL	3,165	-	3,165
Loans to related parties	Performing	12-month ECL	3,823	-	3,823
Receivables due from related parties	Performing	Lifetime ECL	739	-	739
			<u>10,316</u>	<u>-</u>	<u>10,316</u>

The directors have assessed the intercompany loans at the balance sheet date and determined that there had not been a significant increase in credit risk for any of the loans. Therefore all of the intercompany loans were recorded in stage 1 as at both balance sheet dates.

## Pepper (UK) Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 5 . Financial risk review (continued)

##### Credit risk (continued)

##### Fair values

	Carrying amount		Fair value	
	2021	2020	2021	2020
	£000	£000	£000	£000
<b>Financial assets</b>				
Trade receivables, accrued income and other receivables	4,084	3,165	4,084	3,165
Amounts due from related parties	6,984	4,562	6,984	4,562
Cash and cash equivalents	2,589	6,995	2,589	6,995
	<u>13,657</u>	<u>14,722</u>	<u>13,657</u>	<u>14,722</u>
<b>Financial liabilities</b>				
Trade and other payables	1,038	1,463	1,038	1,463
	<u>1,038</u>	<u>1,463</u>	<u>1,038</u>	<u>1,463</u>

The directors consider that the carrying amount of trade and other receivables and amounts due from related parties approximates to their fair value because the balances are paid on demand, short term and have an immaterial ECL.

The directors consider that the carrying amount of trade and other payables approximates to their fair value because the balances are short term and there are no disputes on any of the balances.

##### Fair value hierarchy

The Company applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted in an active market for identical assets or liabilities and the lowest priority to unobservable inputs.

**Level 1** - Unadjusted quoted for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date.

**Level 2** - Quoted in the markets that are not active, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the assets or liabilities that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.

**Level 3** - Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable.

## Pepper (UK) Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 5 . Financial risk review (continued)

##### Credit risk (continued)

##### Fair value hierarchy

As at 31 December 2021

	Carrying amount £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total fair value £000
Trade and other receivables	4,084	-	-	4,084	4,084
Amounts due from related parties	6,984	-	-	6,984	6,984
Cash and cash equivalents	2,589	2,589	-	-	2,589
	<u>13,657</u>	<u>2,589</u>	<u>-</u>	<u>11,068</u>	<u>13,657</u>
Trade and other payables	1,038	-	-	1,038	1,038
	<u>1,038</u>	<u>-</u>	<u>-</u>	<u>1,038</u>	<u>1,038</u>

As at 31 December 2020

	Carrying amount £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total fair value £000
Trade and other receivables	3,165	-	-	3,165	3,165
Amounts due from related parties	4,562	-	-	4,562	4,562
Cash and cash equivalent	6,995	6,995	-	-	6,995
	<u>14,722</u>	<u>6,995</u>	<u>-</u>	<u>7,727</u>	<u>14,722</u>
Trade and other payables	1,463	-	-	1,463	1,463
	<u>1,463</u>	<u>-</u>	<u>-</u>	<u>1,463</u>	<u>1,463</u>

The directors consider that the carrying values of trade and other receivable, amounts due from related parties and trade and other payables are a reasonable approximation of fair values of these instruments.

#### 6 . Revenue

The Company derives its revenue from contracts with customers for the transfer of services over time and at a point in time. The Company has disaggregated revenue into various categories to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date.

	Over time 2021 £000	Point in time 2021 £000	Timing of transfer of services Total 2021 £000	Over time 2020 £000	Point in time 2020 £000	Total 2020 £000
Loan administration servicing fees	22,046	-	22,046	21,042	-	21,042
Fees charged to related parties	2,923	-	2,923	2,948	-	2,948
Advisory fees	-	2,935	2,935	-	6,537	6,537
Commission	-	688	688	-	831	831
Other revenue	200	-	200	200	-	200
	<u>25,169</u>	<u>3,623</u>	<u>28,792</u>	<u>24,190</u>	<u>7,368</u>	<u>31,558</u>

## Pepper (UK) Limited

### Notes to the financial statements

For the year ended 31 December 2021

#### 7 . Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2021 £000	2020 £000
Wages and salaries	16,828	16,111
Social security costs	1,560	1,484
Pension costs, defined contribution scheme	646	600
Redundancy costs	80	(63)
Share-based payment expenses	-	60
	<u>19,114</u>	<u>18,192</u>

The credit balance on redundancy costs in 2020 is in respect of an over accrual relating to 2019.

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

	2021 No	2020 No
Average number of employees during the period	<u>262</u>	<u>255</u>

#### 8 . Directors' remuneration

The directors' remuneration for the year was as follows:

	2021 £000	2020 £000
Remuneration	2,285	1,362
Defined contribution pension costs	63	46
Social security contribution and similar taxes	307	181
Share-based payment long-term incentive plans (4 directors)	-	60
	<u>2,655</u>	<u>1,649</u>

There were six directors in the Company's defined contribution pension scheme during 2021 (2020 - six). The total amount payable to the highest paid director in respect of emoluments was £1,087,121 (2020: £417,907). No directors exercised share options during the year (2020: £nil). The highest paid director did not exercise or receive any shares in 2021 (2020: £nil).

#### 9 . Operating profit

Arrived at after charging/(crediting)

	2021 £000	2020 £000
Depreciation expense	990	1,317
Amortisation expense	1,202	572
Foreign exchange (gains)/losses	(26)	13
Employee benefits expense	19,114	18,192

#### 10 . Finance income

	2021 £000	2020 £000
Finance income	555	398
Fair value adjustment in respect of lease deposit	28	109
Net Finance Income	<u>583</u>	<u>507</u>

#### 11 . Finance costs

	2021 £000	2020 £000
Finance cost	-	(53)
Interest expense on leases	(190)	(227)
Net Finance Income	<u>(190)</u>	<u>(280)</u>

## Pepper (UK) Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 12 . Auditor's remuneration

	2021 £000	2020 £000
Audit of the financial statements	95	93

There were no other non-audit related services provided by Deloitte LLP to the Company.

#### 13 . Income tax expense

	2021 £000	2020 £000
<b>Current taxation</b>		
UK corporation tax	433	1,250
UK corporation tax adjustment to prior periods	11	(53)
Deferred tax	(72)	109
<b>Total tax charged to the income statement</b>	<b>372</b>	<b>1,306</b>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £000	2020 £000
Profit before tax	2,241	6,849
Corporation tax at standard rate of 19% (2020 - 19%).	426	1,301
Reconciling items		
Adjustment to the tax charge in respect of prior periods	-	(9)
Expenses not deductible for tax purposes	-	14
Effect of the change in the tax rate for deferred tax	(54)	-
Other tax effects for reconciliation between accounting profit and taxable profit	-	-
<b>Total tax charged to the income statement</b>	<b>372</b>	<b>1,306</b>

#### Deferred tax asset

The movement on the deferred tax asset account is as shown below:

Deferred tax is calculated in full on temporary differences under liability method using a tax rate of 19% (2020: 19%).

Deferred tax (credit)/charge in the profit and loss account for the period	2021 £000	2020 £000
Balance as at 1 January	135	244
Deferred tax (credit)/charge in the profit and loss account for the period	72	(109)
<b>Balance as at 31 December</b>	<b>207</b>	<b>135</b>

Deferred tax assets have been recognised in respect of all taxable losses and other temporary differences giving rise to deferred tax assets where directors believe it is probable that these assets will be recovered.

#### Factors that may affect future tax (benefits) / charges

In the Spring 2021 Budget, the Chancellor confirmed that the main rate of corporation tax will remain at 19% from 1 April 2021 for the next two years. The main rate had been expected to increase to help pay the massive costs of the COVID-19 pandemic to the public purse. However, the main rate of corporation tax will increase to 25% from 1 April 2023 for companies with profits over £250,000.

## Pepper (UK) Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 14 . Property, plant and equipment

	Land and buildings £000	Furniture, fittings and equipment £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2020	1,722	1,288	3,010
Additions	-	353	353
Disposals / retirements	-	-	-
At 31 December 2020	1,722	1,641	3,363
At 1 January 2021	1,722	1,641	3,363
Additions	6	106	112
Disposals / retirements	-	(457)	(457)
At 31 December 2021	1,728	1,290	3,018
<b>Depreciation</b>			
At 1 January 2020	1,348	803	2,151
Charge for year	266	235	501
Eliminated on disposal / retirement	-	-	-
At 31 December 2020	1,614	1,038	2,652
At 1 January 2021	1,614	1,038	2,652
Charge for year	74	198	272
Eliminated on disposal / retirement	-	(457)	(457)
At 31 December 2021	1,688	779	2,467
<b>Carrying amount</b>			
At 31 December 2021	40	511	551
At 31 December 2020	108	603	711

## Pepper (UK) Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 15 . Right of use assets

	Property £000	Total £000
<b>Cost or valuation</b>		
At 1 January 2020	3,829	3,829
Additions	262	262
At 31 December 2020	4,091	4,091
At 1 January 2021	4,091	4,091
Additions	23	23
At 31 December 2021	4,114	4,114
<b>Depreciation</b>		
At 1 January 2020	696	696
Charge for year	816	816
At 31 December 2020	1,512	1,512
At 1 January 2021	1,512	1,512
Charge for year	718	718
At 31 December 2021	2,230	2,230
<b>Carrying amount</b>		
At 31 December 2021	1,884	1,884
At 31 December 2020	2,579	2,579

The properties rented by the Company have all been classified as finance leases. The total cash outflows in the year were £991k (2020: £645k).

In the statement of profit or loss and other comprehensive income, the interest expense on the lease liability is shown separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs presented separately in the statement of profit or loss and other comprehensive income.

In assessing and considering the potential impairment of the right of use asset subject to the requirements of IFRS 16, it is clear that working from home, whilst working well, is only a temporary measure which was adopted as a result of the ongoing COVID-19 pandemic.

There is no expectation to have a large number of staff to working from home on a permanent basis. The company's head office, Harman House, remains staffed with key workers and as the COVID-19 pandemic abates it is expected that the remainder of the staff will return to the office in due course.

As a consequence of the above no impairment is deemed necessary.

# Pepper (UK) Limited

## Notes to the financial statements

For the year ended 31 December 2021

### 16 . Intangible assets

	Internally generated software £000	Purchased software £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2020	-	596	596
Additions	4,800	175	4,975
At 31 December 2020	4,800	771	5,571
At 1 January 2021	4,800	771	5,571
Additions	55	14	69
Disposals / retirements	-	(168)	(168)
At 31 December 2021	4,855	617	5,472
<b>Depreciation</b>			
At 1 January 2020	-	192	192
Charge for year	363	209	572
At 31 December 2020	363	401	764
At 1 January 2021	363	401	764
Charge for year	971	231	1,202
Eliminated on disposal / retirement	-	(168)	(168)
At 31 December 2021	1,334	464	1,798
<b>Carrying amount</b>			
At 31 December 2021	3,521	153	3,674
At 31 December 2020	4,437	370	4,807

The Company completed the development of the Trinity Project in August 2020. This software platform is being licensed to Pepper Finance Corporation (Ireland) DAC.

During the year the company incurred a further £0.1 million (2020: £1.0 million) of development expenditure in respect of the Trinity project.

### 17 . Trade and other receivables

Amounts receivable from related parties of the Company carry interest of zero per cent to eight per cent (2020: zero per cent to six per cent) per annum charged on the outstanding loan balances. The borrower needs to repay the lender within five business days of receiving a written request. All trade and other receivables are unsecured.

	2021 £000	2020 £000
Trade receivables	1,832	1,104
Loans to related parties	5,914	3,823
Accrued income	1,725	1,583
Prepayments	812	660
Other receivables	527	478
Receivables due from related parties	1,070	739
	<u>11,880</u>	<u>8,387</u>

### 18 . Cash and cash equivalents

Cash and cash equivalents comprise the following balances:

	2021 £000	2020 £000
Cash at bank	2,589	6,995
	<u>2,589</u>	<u>6,995</u>

The fair value of cash at bank approximates to the book value due to the short-term maturity of these instruments.



# Pepper (UK) Limited

## Notes to the financial statements For the year ended 31 December 2021

### 19 . Share capital

Allotted, authorised, called up and fully paid shares

	2021 No	2021 £000	2020 No	2020 £000
Ordinary shares at a par value of £1 each	179,856	180	179,856	180

### 20 . Trade and other payables

	2021 £000	2020 £000
Accrued expenses	419	326
Amounts due to related parties	79	641
Loans from related parties	-	36
Social security and other taxes	820	737
Other payables	540	460
	<u>1,858</u>	<u>2,200</u>

All payables are unsecured, are payable within a year and with the exception of loans to related parties are interest free.

### 21 . Employee benefit liabilities

	2021 £000	2020 £000
Defined contribution scheme	101	107
Accrual for annual leave	93	130
Accrual for staff incentives	2,382	1,527
Accrual for payroll taxes	497	421
	<u>3,073</u>	<u>2,185</u>
	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Analysed between:		
Current	3,001	2,097
Non-current	72	88
	<u>3,073</u>	<u>2,185</u>

### 22 . Share-based payments

#### General

The Group provides benefits to employees of the Group through share-based incentives. Employees are paid for their services or incentivised based on the performance and/or valuation of the businesses where they are employed.

#### Scheme Terms and Conditions: 2018 Long-Term Incentive Plan (LTIP)

The 2018 LTIP Scheme provides an incentive to select management employees of the Group companies and is structured to reward participants who contribute to the growth in value of the Pepper businesses they are involved with.

The 2018 LTIP Scheme involves various classes of shares (tracker shares) being issued by Pepper Global TopCo Limited (PGTCL). Each class of tracker shares entitles the holders to a share in the gain in value of a specific Pepper business unit (BU). The calculation considers:

- an initial BU starting value;
- the impact of capital flows into and from the BU;
- an allocation of group costs (including interest expense and tax reserves); and
- the value achieved on realisation of the BU.

PGTCL has an obligation to cash settle the 2018 LTIP awards on realisation of a BU (through a put or call mechanism), while the group receives benefit from LTIP participants services. PGTCL holds a call over the tracker shares whilst the participant holds a put over the shares, exercisable should a BU exit even occur. If they are not "put" or "called", the tracker shares convert into ordinary PGTCL shares.

The Group has reported value of the net expected cash outflow as an LTIP liability which is calculated using a probability-weighted expected returns model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option) and behavioural considerations.

## Pepper (UK) Limited

### Notes to the financial statements

For the year ended 31 December 2021

#### 22 . Share-based payments (continued)

##### Employee Loans

The Group has provided interest free limited recourse loans to executives and senior employees enabling them to exercise previously issued options, to fund employee related tax payments (due to their participation in employee benefits schemes), to acquire shares in PGTCCL. All these loans are secured against PGTCCL shares held, and due to their limited recourse nature, and in accordance with IFRS 2, the Group has treated these loans as treasury shares.

The interest free loans are valued using a discounted cash flow model to assess the value received by the recipient of the interest free loan.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period.

	No	Grant date	Expiry date	Exercise price £	Fair value at grant date £
B1 Tracker	3,479,413	31/03/2019	Upon realisation of the BU	0.2920	615,231

There were no movements in shares options during the year, as no shares had been granted or exercised during the financial year ended 31 December 2021.

There were no forfeitures of shares options during the year.

#### 23 . Provisions

The provisions are in respect of leasehold properties and relate to the fair value of the estimated cost of returning the leasehold properties to their original state at the end of the lease in accordance with the lease terms.

	2021 £000	2020 £000
At 1 January	286	269
Charge for year	17	17
At 31 December	303	286

	2021 £000	2020 £000
Analysed between:		
Current	293	286
Non-current	10	-
	303	286

## Pepper (UK) Limited

### Notes to the financial statements For the year ended 31 December 2021

#### 24 . Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and balances outstanding at 31 December, are as follows:

2021	Interest charged to related parties £000	Interest charged from related parties £000	Services provided to related parties £000	Services provided from related parties £000	Amounts owed from related parties £000	Amounts owed to related parties £000
Castell 2019-1 PLC	-	-	327	-	26	-
Castell 2020-1 PLC	-	-	402	-	33	-
Castell 2021-1 PLC	-	-	82	-	41	-
Jalapeno Funding Limited	-	-	255	-	27	-
Naga Funding Limited	-	-	286	-	43	-
Optimum Credit Limited	-	-	963	-	68	-
Optimum Three Limited	-	-	275	-	19	-
Pepper Cyprus Holdings Limited	-	-	-	-	14	-
Pepper Cyprus Limited	-	-	37	-	2	-
Pepper Europe Investments UK Limited	285	-	-	-	-	-
Pepper European Servicing Limited	-	-	5	-	5	-
Pepper Europe (UK) Limited	-	-	-	-	-	76
Pepper Finance Corporation (Ireland) Limited	-	-	1,307	-	275	-
Pepper Finance (H73) Limited	267	-	-	-	5,914	-
Pepper Global TopCo Limited	-	-	40	42	-	2
Pepper Group Services (Australia) Pty Limited	-	-	255	184	299	-
Pepper Global Servicing Investment 1 Limited	-	-	25	-	30	-
Pepper Group Limited	-	-	-	-	-	1
Pepper Money (PMB) Limited	-	-	489	-	-	-
Pepper Money Limited	-	-	-	-	59	-
Pepper Spanish Services, S.L.	-	-	823	-	27	-
Polaris 2019-01 PLC	-	-	245	-	21	-
Polaris 2020-01 PLC	-	-	443	-	36	-
Polaris 2021-01 PLC	-	-	237	-	45	-

During the year ended 31 December 2021, the Company provided services to, and was provided with services from, fellow group undertakings as detailed in the table above. All services were provided on an 'arm's length' basis.

The amounts outstanding as at 31 December 2021 are unsecured and will be settled in cash. The amounts are interest free, except for Pepper Finance (H73) Limited.

No guarantees have been given or received. No provisions have been made as at 31 December 2021 for doubtful debts in respect of amounts owed by related parties.

## Pepper (UK) Limited

### Notes to the financial statements

For the year ended 31 December 2021

#### 24 . Related party transactions (continued)

2020	Interest charged to related parties £000	Interest charged from related parties £000	Services provided to related parties £000	Services provided from related parties £000	Amounts owed from related parties £000	Amounts owed to related parties £000
Castell 2019-1 PLC	-	-	355	-	31	-
Castell 2020-1 PLC	-	-	219	-	36	-
Jalapeno Funding Limited	-	-	211	-	17	-
Naga Funding Limited	-	-	220	-	4	-
Optimum Credit Limited	-	-	981	-	115	-
Optimum Three Limited	-	-	291	-	18	-
Pepper Cyprus Holdings Limited	-	-	-	-	11	-
Pepper Cyprus Limited	-	-	469	-	18	-
Pepper Europe Investments UK Limited	319	7	-	-	3,812	-
Pepper Europe (UK) Limited	-	-	-	-	-	578
Pepper Finance Corporation (Ireland) Limited	-	-	470	-	-	33
Pepper Finance (H62) Limited	58	-	-	-	-	-
Pepper Finance (H73) Limited	4	46	-	-	-	36
Pepper Global Asian Holdco Limited	-	-	-	-	-	6
Pepper Greece S. A.	-	-	6	-	-	-
Pepper Group Limited	-	-	-	-	-	12
Pepper Group Services (Australia) Pty Limited	-	-	-	60	276	-
Pepper Hellas Asset Management S.A	17	-	-	-	-	-
Pepper Money (PMB) Limited	-	-	625	121	-	-
Pepper Spanish Holdings Limited	-	-	-	-	-	1
Pepper Spanish Services, S.L.	-	-	1,478	-	152	-
Polaris 2019-01 PLC	-	-	303	-	23	-
Polaris 2020-01 PLC	-	-	187	-	38	-

During the year ended 31 December 2020, the Company provided services to, and was provided with services from, fellow group undertakings as detailed in the table above. All services were provided on an 'arm's length' basis.

The amounts outstanding as at 31 December 2020 are unsecured and will be settled in cash. The amounts are interest free, except for Pepper Europe Investments UK Ltd, Pepper Finance (H62) Limited and Pepper Finance (H73) Limited.

No guarantees have been given or received. No provisions have been made as at 31 December 2020 for doubtful debts in respect of amounts owed by related parties.

#### 25 . Parent and ultimate parent undertaking

The Company is a subsidiary undertaking of Pepper European Servicing Limited, a company registered in England and Wales. Pepper Global TopCo Limited ("PGTCL"), a company registered in Jersey. PGTCL is the ultimate parent because no other entity has a controlling ownership of PGTCL. PGTCL prepares group financial statements and copies can be obtained from 22 Grenville Street, St Helier, Jersey, JE4 8PX. PGTCL is the largest and smallest group into which the Company is consolidated.

#### 26 . Non adjusting events after the financial period

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected the Company's operations, results or state of affairs, or may do so in future years.