

DELAMARE CARDS FUNDING 1 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Company Number: 08356551

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DELAMARE CARDS FUNDING 1 LIMITED

CONTENTS

DIRECTORS AND ADVISERS	1
STRATEGIC REPORT	2
DIRECTORS' REPORT	5
STATEMENT OF COMPREHENSIVE INCOME	8
STATEMENT OF FINANCIAL POSITION	9
STATEMENT OF CHANGES IN EQUITY	10
STATEMENT OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12
INDEPENDENT AUDITOR'S REPORT	27

DELAMARE CARDS FUNDING 1 LIMITED

DIRECTORS AND ADVISERS

Directors:	J R Saout B M Surnam M C Schnaier
Secretary:	Sanne Group Secretaries (UK) Limited Asticus Building 2nd Floor 21 Palmer Street London SW1H 0AD
Registered Office:	Asticus Building 2nd Floor 21 Palmer Street London SW1H 0AD
Independent Auditor:	Deloitte LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2DB
Bankers:	HSBC Bank plc 8 Canada Square London E14 5HQ Bank of New York Mellon, London Branch 1 Canada Square London E14 5AL
Cash Manager:	Tesco Personal Finance plc EHQ 2 South Gyle Crescent Edinburgh EH12 9FQ
Servicer:	Tesco Personal Finance plc EHQ 2 South Gyle Crescent Edinburgh EH12 9FQ

DELAMARE CARDS FUNDING 1 LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for Delamare Cards Funding 1 Limited (the Company) for the year ended 31 December 2017.

The Annual Report and Financial Statements comprises the Strategic Report, the Directors' Report and the Financial Statements and accompanying notes.

BUSINESS MODEL

The principal activity of the Company is to act within a securitisation structure for credit card receivables originated and acquired by Tesco Personal Finance plc (TPF plc). The securitisation structure has been established as a means of raising finance for TPF plc.

The credit card receivables are held in Trust for the Company and the originator, TPF plc, by Delamare Cards Receivables Trustee Limited (the Trustee). The beneficial interest in the credit card receivables is represented by a Deemed Loan to TPF plc. The Company is incorporated and domiciled in the United Kingdom (UK), where all of its business activities take place, and registered in England.

The activities of the Company are managed in accordance with the securitisation transaction documents, which set out the workings of the transaction and the principal risks to the holder of the Global Loan Notes issued by the Company. As such, these have not been reproduced in full in these Financial Statements.

BUSINESS PERFORMANCE

During the year, the Company earned £69,454k (2016: £73,777k) from TPF plc in relation to interest due on the Deemed Loan (note 1(j)). Interest proceeds were used to meet the Company's obligations on the Global Loan Note, payable to Delamare Cards MTN Issuer Plc (MTN Issuer Plc), a fellow group undertaking, and to meet the administrative costs of the Company.

The Company made a profit for the year of £1k (2016: £1k). Profits for the Company are pre-defined under the securitisation transaction documents. Under the terms of these documents the Company retains the rights to £0.1k per month. This is reflected within the Statement of Comprehensive Income on page 8.

NOTE ISSUANCE AND REDEMPTION

In May 2017 MTN Issuer Plc settled a £150m 2014-1 Class A Medium Term Note. At the same time, the Company settled a Global Loan Note tranche of the same amount, reducing the Company's beneficial interest in the Trust.

In November 2017, MTN Issuer Plc issued four Class A Medium Term Notes. A single Class A note of £300m was offered to the market. The remaining Class A notes, totalling £1,150m, were purchased by TPF plc. The supporting unlisted Class D note was increased by £62.2m and was also purchased by TPF plc. Simultaneously, the Company issued four notional tranches of its Global Loan Note No1. All tranches were purchased by MTN Issuer Plc. The increase in the Class D Loan Note was also purchased by MTN Issuer Plc. All proceeds received have been invested by the Company in the Trust, thereby amending the Company's beneficial interest in the Trust property.

In November 2017, MTN Issuer Plc also settled three of its Medium Term Notes totalling £800m in a non-cash transaction. At the same time, the Company settled Global Loan Note tranches of the same amount, thereby reducing the Company's beneficial interest in the Trust.

Overall, the Company's beneficial interest in the Trust increased by £562.2m as a result of the above cash and non-cash transactions. The Company's Deemed Loan with TPF plc increased by an equivalent amount.

MTN Issuer Plc expects to settle a further £300m of AAA rated Class A Medium Term Note in April 2018. To facilitate this, the Trustee shall retain the Company's share of the Trust's credit card principal receipts during the accumulation period and pay the principal to the Company (as the Funding 1 beneficiary), reducing the Company's share in the Trust prior to the scheduled redemption date. The Company's Deemed Loan with TPF plc will reduce accordingly each month over the accumulation period. At 31 December 2017, £100m of cash in respect of this redemption has been retained by the Company, with a further £50m receivable from the Trustee at the reporting date. The Deemed Loan has reduced by £150m in respect of these transactions.

DELAMARE CARDS FUNDING 1 LIMITED

STRATEGIC REPORT (Continued)

NOTE ISSUANCE AND REDEMPTION (continued)

To protect the Company's ability to settle the Global Loan Note's interest payments during the accumulation period, an Accumulation Reserve amount was established on 18 August 2017. On this date the Company retained £1.5m of excess spread within the Company's Accumulation Reserve Account. The reserve shall be drawn upon in accordance with the calculation of the Accumulation Reserve Draw Amount as defined in the transaction documents. Given the level of revenue expected from the Trustee during this accumulation period, the Company does not expect to draw on this reserve.

The accumulation reserve of £750k established during the prior year to protect the Class A Note settled in May 2017 was repaid during the current year.

STRATEGIC PRIORITIES

The Company will continue to seek appropriate opportunities to raise finance to support the ongoing activities of TPF plc.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has implemented a set of policies and procedures in order to manage the risks associated with the transactions undertaken by the Company. The principal risks the Company is exposed to are detailed below.

Credit risk

Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Company will incur losses due to any other counterparty failing to meet their financial obligations.

The Company is, therefore, exposed to credit risk via the ability of TPF plc to repay its obligations under the terms of the Deemed Loan. This is dependent on the ability of borrowers to meet their obligations as they fall due under the credit card receivables held by the Trust in which the Company has an investor beneficial interest.

The Directors continually monitor the performance of the underlying credit card receivables, taking into consideration any developing trends, but given the ability for changes to be made to the pool of credit card receivables at the discretion of the Transferor (TPF plc) and each Rating Agency in order to mitigate the credit risk, the Directors do not consider the exposure to credit risk to be material to the Company.

Liquidity and funding risk

Liquidity risk is the risk that the Company is not able to meet its obligations as they fall due. Liquidity risk arises from the mismatch in the timing of cash flows generated from assets and liabilities. Funding risk is the risk that the Company does not have sufficiently stable and diverse sources of funding. Funding risk arises from the ability of the Company to issue tranches of the Global Loan Note.

The principal financial asset held by the Company is the Deemed Loan issued to TPF plc. The main purpose of holding this financial asset is to enable appropriate liquidity, ensuring the Company's liabilities in respect of the tranches of Global Loan Note are met as they fall due and to meet regulatory requirements in respect of liquidity management.

The principal financial liabilities of the Company are the aggregate outstanding Global Loan Note tranches and accrued interest thereon. A purpose of these financial liabilities is to ensure the Company has sufficient funding.

The Directors do not consider the exposure to liquidity risk to be material to the Company as the Global Loan Note is designed to align to the maturity and repayment profile of the Deemed Loan backed by the credit card receivables.

DELAMARE CARDS FUNDING 1 LIMITED

STRATEGIC REPORT (Continued)

Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced income in respect of the Company's interest bearing financial assets and financial liabilities.

The Directors do not consider exposure to interest rate risk to be material as the Company has no material fixed rate assets or liabilities and the originator of the Deemed Loan can amend its pricing to reflect changes in interest rates on the tranches of Global Loan Note.

Operational risk

Operational risk is the risk of potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error or from external events.

The Trustee and the beneficial owners of the Trust property have retained TPF plc under the terms of the servicing agreement as the Servicer of the credit card receivables.

TPF plc has performed all relevant activities in its capacity as Servicer and Cash Manager. Failure of the Servicer/Cash Manager to carry out its services could lead to a loss on the tranches of Global Loan Note and/or early redemption of the tranches of Global Loan Note.

The ability of TPF plc to make the payments due in respect of any Deemed Loan to the Company is in part dependent upon the Servicer administering the credit card receivables (which form the Trust's property) and transactions affecting the credit card receivables in a prompt and accurate manner.

The Directors consider the controls to be effective which, together with the appointment of Sanne Group as the successor servicer facilitator, reduces the level of operational risk to minimal levels.

KEY PERFORMANCE INDICATORS (KPIs)

The Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the Company. However, a defined set of KPIs for the securitisation transaction are set out in the securitisation transaction documentation and published in the monthly Servicer Reports, available on www.corporate.tescobank.com.

The primary KPI used by management in assessing the performance of the Company is the monitoring of actual cash flows against planned cash flows. In addition, performance is measured against the following KPIs to assess whether:

- Excess available funds averaged over a three month period is greater than £nil;
- The balance of the securitised credit card receivables is greater than a minimum balance as defined within the securitisation transaction documents; and
- The principal balance of the Trust's securitised credit card receivables is greater than the aggregate total amount of Delamare Cards MTN Issuer Plc's Notes in Issue.

The Company has made all necessary payments on the Global Loan Note in accordance with the scheduled payment dates for the year ended 31 December 2017.

BY ORDER OF THE BOARD



B.M. Surnam
Director
16 February 2018

DELAMARE CARDS FUNDING 1 LIMITED

DIRECTORS' REPORT

The Directors present their Annual Report, the Financial Statements and the Independent Auditor's Report for the year ended 31 December 2017.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Company's business review and future developments are set out in the Strategic Report on pages 2 to 3.

RISK MANAGEMENT

The Company's risk management policies are set out in the Strategic Report on pages 3 and 4.

EVENTS AFTER THE REPORTING DATE

Details of events occurring after the reporting date are discussed in note 18 to the Financial Statements.

GOING CONCERN

The Directors have made an assessment of going concern, taking into account both current and projected cash flows.

Interest and principal will be paid on the tranches of Global Loan Note to the extent that funds are remitted from the financial assets to the Company in accordance with the securitisation transaction documents. The Directors expect that the Company will continue to meet all of its obligations as they fall due for a period of at least 12 months from the date of this report.

The Directors do not anticipate any external changes in the business environment which would adversely impact the Company. This is dependent on there being no change in the performance of the tranches of Global Loan Note, which in turn is dependent on there being no material change in performance of the credit card receivables. Additional details relating to the performance of the credit card receivables can be found in note 13.

As a result of this assessment, the Directors consider the Company to be in a satisfactory financial position and confirm that any solvency or liquidity risks can be managed effectively. Accordingly, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

DIVIDENDS

During the year, no interim dividend has been paid (2016: £nil). The Directors do not recommend a final dividend for the year (2016: £nil). The Directors consider the results to be satisfactory and as expected in light of the Company's operating environment during the year.

DIRECTORS

On 12 October 2017 J.R. Saout was appointed as a Director. B.M. Surnam and M.C. Schnaier have served throughout the year. The present Directors and Company Secretary are listed on page 1.

EMPLOYEES

The Company does not have any employees (2016: none).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Company cautions users of these Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 3 and 4 of this Annual Report.

DELAMARE CARDS FUNDING 1 LIMITED

DIRECTORS' REPORT (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following should be read in conjunction with the responsibilities of the independent auditor as set out in their report on page 28.

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 such financial statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these Financial Statements, the Directors are required to:

- 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company'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 the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names are listed on page 1 of the Annual Report and Financial Statements confirms that, to the best of their knowledge:

- the Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Company's shareholder to assess the Company's position, performance, business model and strategy.

So far as each Director is aware at the date of approving this report, there is no relevant audit information, being information needed by the auditors in connection with preparing this report, of which the auditor is unaware. All of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

DELAMARE CARDS FUNDING 1 LIMITED

DIRECTORS' REPORT (Continued)

Independent Auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

BY ORDER OF THE BOARD



B.M. Surnam
Director
16 February 2018

DELAMARE CARDS FUNDING 1 LIMITED**STATEMENT OF COMPREHENSIVE INCOME****For the year ended 31 December 2017**

	Note	31 December 2017 £'000	31 December 2016 £'000
Interest and similar income	2	69,454	73,777
Interest expense	2	(15,272)	(17,270)
Net interest income		<u>54,182</u>	<u>56,507</u>
Administrative expenses	3	(54,181)	(56,506)
Profit before tax		<u>1</u>	<u>1</u>
Income tax charge	4	-	-
Profit and total comprehensive income for the year		<u>1</u>	<u>1</u>

All items dealt with in arriving at the profit for the year ended 31 December 2017 related to continuing operations (2016: continuing operations).

There was no other comprehensive income for the year ended 31 December 2017 (2016: £nil).

DELAMARE CARDS FUNDING 1 LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

Company number 08356551

		31 December 2017 £'000	31 December 2016 £'000
	Note		
Assets			
Cash and cash equivalents	5	157,093	44,282
Other receivables	6	67,789	17,046
Deemed Loan	7	2,212,200	1,800,000
Total assets		2,437,082	1,861,328
Liabilities			
Loan payable	8	57,109	46,144
Other payables	9	19,390	17,314
Global Loan Note	10	2,360,578	1,797,866
Total liabilities		2,437,077	1,861,324
Equity			
Share capital	11	-	-
Retained earnings		5	4
Total equity		5	4
Total liabilities and equity		2,437,082	1,861,328

The Financial Statements on pages 8 - 26 were approved by the Board of Directors and authorised for issue on 16 February 2018 and were signed on its behalf by:



B.M. Surnam

Director

DELAMARE CARDS FUNDING 1 LIMITED**STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2017**

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2017	–	4	4
	–		
Comprehensive Income			
Profit and total comprehensive income for the financial year	–	1	1
Balance at 31 December 2017	–	5	5

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2016	–	3	3
Comprehensive Income			
Profit and total comprehensive income for the financial year	–	1	1
Balance at 31 December 2016	–	4	4

DELAMARE CARDS FUNDING 1 LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	31 December 2017 £'000	31 December 2016 £'000
Note		
Cash flows from operating activities		
Profit before tax	1	1
Interest received on Deemed Loan	(15,272)	(17,270)
Interest paid on Global Loan Note	15,272	17,270
(Decrease)/increase in other receivables	(388)	1,195
Increase/(decrease) in other payables	1,138	(438)
Net cash flows generated from operating activities	<u>751</u>	<u>758</u>
Cash flows from investing activities		
Investment in Deemed Loan	(300,000)	–
Reduction in Deemed Loan	250,000	–
Interest received on Deemed Loan	14,917	17,449
Net cash flows (used in)/generated from investing activities	<u>(35,083)</u>	<u>17,449</u>
Cash flows from financing activities		
Global Loan Note issued	300,000	–
Global Loan Note redeemed	(150,000)	–
Issuance costs	(1,043)	–
Interest paid on Global Loan Note	(14,917)	(17,449)
Loan facility received	38,311	–
Loan facility paid	(25,208)	–
Net cash flows generated from/(used in) financing activities	<u>147,143</u>	<u>(17,449)</u>
Net increase in cash and cash equivalents	<u>112,811</u>	<u>758</u>
Cash and cash equivalents at beginning of the year	<u>44,282</u>	<u>43,524</u>
Cash and cash equivalents at the end of the year	<u>5</u> <u>157,093</u>	<u>44,282</u>

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The Financial Statements have been prepared under the historical cost convention.

The Financial Statements are presented in Sterling, which is the functional currency of the Company. The figures shown in the Financial Statements are rounded to the nearest thousand unless otherwise stated. The Directors continue to adopt the going concern basis in preparing the Financial Statements.

Principal Accounting Policies

A summary of the Company's accounting policies is set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

(a) Segmental reporting

The Company's activities, as considered by the Directors, constitute one segment due to the similarity of risks faced in relation to the issue of the tranches of Global Loan Note. Consequently, all activities are presented as such and therefore the Company is not required to produce additional segmental information.

All of the Company's activities were undertaken in the UK therefore no geographic analysis is presented.

(b) Revenue recognition

Interest and similar income and interest expense for all financial instruments measured at amortised cost are recognised using the effective interest rate (EIR) method.

The EIR method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

(c) Administrative expenses

Administrative expenses are recognised on an accruals basis in the period in which they are incurred.

(d) Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date and is recognised as an expense in the period in which profits arise.

The Company's tax charge is based on the permanent tax regime for securitisation companies.

(e) Cash and cash equivalents

Cash and cash equivalents comprise demand deposits with banks and any highly liquid investments which meet the criteria set out in the securitisation transaction documents.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

(f) Financial instruments

The Company classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it creates a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Company after the deduction of liabilities.

Financial assets

The Company has classified its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost using the EIR method, less any impairment.

Financial liabilities

The Company measures all of its financial liabilities at amortised cost using the EIR method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of transaction costs incurred.

(g) Recognition/derecognition of financial instruments

The financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred and the transfer qualifies for derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(h) Fair value estimates

The fair value estimates are calculated using a discounted cash flow estimate appropriately adjusted to reflect credit risk. Taking account of their identical nature, the fair values for the tranches of Global Loan Note is considered to be the same as the Notes in Issue which have been issued by Delamare Cards Issuer Plc (MTN Issuer Plc).

(i) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset classified as loans and receivables is impaired. A financial asset is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the financial asset or group of financial assets have adversely affected the amount or timing of future cash flows from the financial asset or group of financial assets.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the financial asset or group of financial assets and the present value of estimated future cash flows from the financial asset or group of financial assets discounted at the EIR of the instrument(s) at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. In making the collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the estimated cash recoveries and historical loss experience for financial assets with similar credit risk characteristics. Impairment allowances are recorded within the Statement of Comprehensive Income.

Losses suffered by the Company in respect of the Deemed Loan to Tesco Personal Finance plc (TPF plc) will not trigger an impairment until all credit enhancements are exhausted. Credit enhancement is represented by excess spread (Deemed Loan receipts remaining following payment of Company liabilities) and cash reserves (a cash series loan issued by TPF plc and a programme reserve) from which Global Loan Note shortfalls can be drawn.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

(j) Deemed Loan

The Company used the proceeds of the Global Loan Note to purchase a beneficial interest in a pool of credit card receivables originated by TPF plc and held in Trust by Delamare Cards Receivables Trustee Limited (the Trustee). These credit card receivables have been equitably assigned by TPF plc to the Trustee. However, this has not resulted in TPF plc passing on substantially all the risks and rewards associated with the credit card receivables. Accordingly, the credit card receivables remain on TPF plc's Statement of Financial Position and the Company has recognised a Deemed Loan with TPF plc.

(k) Other payables

Other payables arise in the normal course of the Company's trading activities. Other payables are carried at amortised cost.

(l) Loan payable

The loan payable represents the credit enhancement (note 1(i)) passed to the Company by TPF plc, a fellow Group undertaking. The loan payable is carried at amortised cost.

(m) Global Loan Note

The tranches of Global Loan Note were issued by the Company to allow it to purchase a share in the credit card receivables originated by TPF plc, which as stated above is recorded as a Deemed Loan. The tranches of Global Loan Note are carried at amortised cost. The costs related to the issuance of tranches of Global Loan Note and the related Notes in Issue by MTN Issuer Plc are capitalised and amortised over the life of the Notes in Issue.

(n) Critical accounting judgements and estimates

The Directors consider the accounting for the deemed loan to be a critical accounting judgement. Further information is disclosed in note 1(j). There are no areas of estimation uncertainty affecting the Company.

2. NET INTEREST INCOME

	31 December 2017 £'000	31 December 2016 £'000
Finance income		
Interest receivable on Deemed Loan	69,454	73,777
Interest and similar income	69,454	73,777
Finance cost		
Class A Global Loan Note	(15,251)	(17,250)
Class D Global Loan Note	(21)	(20)
Interest expense	(15,272)	(17,270)
Net interest income	54,182	56,507

3. ADMINISTRATIVE EXPENSES

	31 December 2017 £'000	31 December 2016 £'000
Administration expense	21,279	20,938
Loan note holder default expense	32,902	35,568
	54,181	56,506

DELAMARE CARDS FUNDING 1 LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****3. ADMINISTRATIVE EXPENSES (continued)**

No emoluments were due to the Directors for their services to the Company during the year ended 31 December 2017 and up to the date of this report (2016: £nil).

The Company does not have any employees (2016: none).

Audit fees for the year were £15,450 (2016: £12,500), all of which related to the audit of the Company's Financial Statements.

4. INCOME TAX CHARGE

The standard rate of corporation tax in the UK was changed from 20% to 19% with effect from 1 April 2017. This gives a blended Corporation Tax rate for the Company for the full year of 19.25% (2016: 20.0%).

	31 December 2017 £'000	31 December 2016 £'000
Analysis of charge in the year		
Profit on ordinary activities before tax	1	1
Profit on ordinary activities before tax multiplied by the rate of corporation tax of 19.25% (2016: 20%)	-	-
Income tax charge	-	-

5. CASH AND CASH EQUIVALENTS

	31 December 2017 £'000	31 December 2016 £'000
Cash at bank	157,093	44,282
	157,093	44,282

Cash and cash equivalents are classified as current (2016: current).

6. OTHER RECEIVABLES

	31 December 2017 £'000	31 December 2016 £'000
Amounts due from Delamare Cards Receivable Trustee Limited	67,789	17,046
	67,789	17,046

Other receivables are non-interest bearing and classified as current (2016: current).

DELAMARE CARDS FUNDING 1 LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****7. DEEMED LOAN**

	31 December 2017 £'000	31 December 2016 £'000
Amounts due from TPF plc	2,212,200	1,800,000
	<u>2,212,200</u>	<u>1,800,000</u>

During the year, the Company made a net investment of funds into the Trust of £412.2m, resulting in an increase in the beneficial interest in the Trust. The Deemed Loan is classified as non-current (2016: non-current) with the exception of £150m (2016: £150m) classified as current in relation to the scheduled redemption by the Company in April 2018 of the £300m Class A (2015-1) notional tranche of the Global Loan Note. Further detail on this redemption is set out in the Strategic Report on page 2.

At 31 December 2017, £100m of cash in respect of this redemption has been retained by the Company, with a further £50m receivable from the Trustee at the reporting date. The Deemed Loan has reduced by £150m in respect of these transactions.

8. LOAN PAYABLE

	31 December 2017 £'000	31 December 2016 £'000
Amounts due to TPF plc	57,109	46,144
	<u>57,109</u>	<u>46,144</u>
Current	7,500	5,835
Non-current	49,609	40,309
	<u>57,109</u>	<u>46,144</u>

9. OTHER PAYABLES

	31 December 2017 £'000	31 December 2016 £'000
Amounts due to Delamare Cards Receivables Trustee Limited	4,841	4,666
Amounts due to TPF plc	13,604	12,641
Other payables	7	7
Issuance costs payable	938	-
	<u>19,390</u>	<u>17,314</u>

Other payables are classified as current (2016: current).

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. GLOBAL LOAN NOTE

	Contractual Maturity Date	Scheduled Redemption Date	31 December 2017 £'000	31 December 2016 £'000
Global Loan Note tranches				
<u>Principal</u>				
Class A (2013)	2020	2018	-	600,000
Class A (2014)	2019-21	2017-19	350,000	500,000
Class D (2014)	2026	2024	262,200	200,000
Class A (2015)	2020-22	2018-20	300,000	500,000
Class A (2017)	2022-24	2020-22	1,450,000	-
<u>Interest</u>				
Accrued interest on the Global Loan Note			844	489
			2,363,044	1,800,489
Unamortised issue costs			(2,466)	(2,623)
			2,360,578	1,797,866

Reconciliation to Cashflow Statement

	At 1 January 2017 £m	Financing Cash flows £m	Non-cash movements Fair value change £m	Accrued Interest £m	Other £m	At 31 December 2017 £m
Global Loan Note	(1,797,866)	(135,083)	-	(15,272)	(412,357)	(2,360,578)
Total liabilities from financing activities	(1,797,866)	(135,083)	-	(15,272)	(412,357)	(2,360,578)

During the year, the Company issued four further tranches of the Global Loan Note with a total nominal value of £1,450m and increased its Class D Loan Note by £62.2m. The transactions consisted of a £300m cash issue and a £1,212.2m non-cash issue. The Company also settled four tranches of Global Loan Note with a total nominal value of £950m. This consisted of a cash transaction of £150m and a non-cash transaction of £800m.

Each notional tranche of the Global Loan Note bears interest monthly in arrears. There have been no defaults in the payment of principal and interest or other breaches with respect to liabilities in the year. (2016: no defaults or other breaches).

The £300m Class A (2015-1) Loan Note is expected to be redeemed at its scheduled redemption date in April 2018. At the prior year end, £150m of the Class A (2014-1) Loan Note was due to be redeemed at its scheduled redemption date in May 2017.

The remaining tranches of the Global Loan Note are classified as non-current, with accrued interest on all tranches of Global Loan Note classified as current.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. SHARE CAPITAL

	31 December 2017 £	31 December 2016 £
Authorised		
Ordinary shares of £1 each	Unlimited	Unlimited
Allocated, called up and fully paid		
1 Ordinary share of £1 each	1	1

100% of the issued share capital is beneficially owned by the parent undertaking, Delamare Cards Holdco Limited.

12. FINANCIAL INSTRUMENTS

Classification of financial assets and financial liabilities

All of the Company's financial assets are classified as loans and receivables at amortised cost and all of its financial liabilities are classified as other liabilities at amortised cost.

Fair values of financial assets and financial liabilities

The Directors consider that the carrying values of cash and cash equivalents and other payables and receivables recorded on the Statement of Financial Position are approximately equal to their fair values due to their short term nature.

The fair values of the Deemed Loan, the Global Loan Note and the loan payable are not materially different to their carrying values. Based on the method used to establish their fair values they are all considered to be Level 3 in the fair value hierarchy.

The valuation techniques and inputs used to derive fair values at the year end are described below, and remain unchanged since 31 December 2016.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where an active market is considered to exist, fair values are based on quoted prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments.

In each case the fair value is calculated by discounting future cash flows using benchmark observable market interest rates. This is kept under review.

There are three levels to the hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

Derivative financial instruments which are categorised as Level 2 are those which either:

- Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign exchange rates; or
- Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

In each case the fair value is calculated by discounting future cash flows using benchmark, observable market interest rates.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. FINANCIAL INSTRUMENTS (continued)

Level 3 – Inputs for the asset or liability are not based on observable market data (unobservable inputs).

There were no transfers between levels in the year to 31 December 2017 (2016: no transfers).

13. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company is exposed to financial risks which it manages to achieve its financial and corporate objectives.

Strategy in using financial instruments

Financial instruments comprise the majority of the Company's financial assets and financial liabilities and these instruments expose the Company to financial risk. The Company does not trade in financial instruments.

Credit Risk

Credit risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Company will incur losses due to any other counterparty failing to meet their financial obligations.

The Company is, therefore, exposed to credit risk via the ability of TPF plc to repay its obligations under the Deemed Loan. This is dependent on the ability of borrowers to meet their obligations as they fall due under the credit card receivables held in Trust by the Trustee.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. FINANCIAL RISK MANAGEMENT (continued)

The table below presents the arrears performance of the credit card receivables in which the Company has a beneficial interest along with TPF plc. Through the Deemed Loan, the Company is exposed to a share of the credit risk in these credit cards. A financial asset is past due if a counterparty has failed to make a contractual payment when due.

31 December 2017	Accounts No.'000	Value £'000	% of Total
Neither past due nor impaired	2,905	3,593,838	97.44
Past due but not impaired	13	43,351	1.18
Impaired	13	51,228	1.38
	2,931	3,688,417	100.00

31 December 2017	Accounts No.'000	Value £'000	% of Total
Non delinquent	2,905	3,593,838	97.44
1 month past due	8	23,086	0.63
2 months past due	3	11,370	0.31
3 months past due	2	8,895	0.24
Greater than 3 months past due	13	51,228	1.38
	2,931	3,688,417	100.00

31 December 2016	Accounts No.'000	Value £'000	% of Total
Neither past due nor impaired	2,459	2,631,005	97.23
Past due but not impaired	11	32,305	1.19
Impaired	18	42,753	1.58
	2,488	2,706,063	100.00

31 December 2016	Accounts No.'000	Value £'000	% of Total
Non delinquent	2,459	2,631,005	97.23
1 month past due	7	17,416	0.64
2 months past due	2	8,149	0.30
3 months past due	2	6,740	0.25
Greater than 3 months past due	18	42,753	1.58
	2,488	2,706,063	100.00

The Directors continually monitor the performance of the underlying credit card receivables and take into consideration any developing trends. None of the financial assets of the Company were past due or impaired at the reporting date.

The Company has a concentration risk in relation to the originator, TPF plc. The underlying assets of the securitisation originate in the UK market. The nature of the credit card receivables means that there is no significant counterparty credit risk.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. FINANCIAL RISK MANAGEMENT (continued)

The Company assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. The securitisation transaction documents contain various rating triggers linked to key counterparties, which require certain actions be taken if triggers are breached.

Counterparty	Long Term Rating as at 31 December 2017 and date of approval of Financial Statements		Long Term Rating as at 31 December 2016	
	(Moody's/S&P/Fitch)		(Moody's/S&P/Fitch)	
Bank account provider	HSBC Bank plc	Aa3/AA-/AA-	Aa2/AA-/AA-	
	Bank of New York Mellon	Aa2/AA-/AA-	Aa2/AA-/AA-	

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its obligations as they fall due. Liquidity risk arises from the mismatch in the timing of cash flows generated from assets and liabilities.

The table below presents the cash flows payable by the Company under non-derivative financial assets and financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the earliest contractual undiscounted cash flows:

31 December 2017	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 4 years £'000	Between 4 and 5 years £'000	Beyond 5 years £'000	Total £'000
Financial Assets							
Cash and cash equivalents	157,093	–	–	–	–	–	157,093
Other receivables	67,789	–	–	–	–	–	67,789
Deemed Loan							
Principal	150,000	350,000	300,000	–	1,150,000	262,200	2,212,200
Interest	23,233	23,155	22,670	19,870	17,546	37	106,511
Total financial assets	398,115	373,155	322,670	19,870	1,167,546	262,237	2,543,593
Financial Liabilities							
Global Loan Note							
Principal	300,000	350,000	300,000	–	1,150,000	262,200	2,362,200
Interest	23,233	23,155	22,670	19,870	17,546	37	106,511
Loan payable	9,618	11,213	8,717	990	29,600	1,354	61,492
Other payables	19,390	–	–	–	–	–	19,390
Total financial liabilities	352,241	384,368	331,387	20,860	1,197,146	263,591	2,549,593

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. FINANCIAL RISK MANAGEMENT (continued)

31 December 2016	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 4 years £'000	Between 4 and 5 years £'000	Beyond 5 years £'000	Total £'000
Financial Assets							
Cash and cash equivalents	44,282	–	–	–	–	–	44,282
Other receivables	17,046	–	–	–	–	–	17,046
Deemed Loan							
Principal	150,000	900,000	350,000	200,000	–	200,000	1,800,000
Interest	14,836	10,041	4,658	1,092	20	48	30,695
Total financial assets	226,164	910,041	354,658	201,092	20	200,048	1,892,023
Financial Liabilities							
Global Loan Note							
Principal	150,000	900,000	350,000	200,000	–	200,000	1,800,000
Interest	14,836	10,041	4,658	1,092	20	48	30,695
Loan payable	5,835	24,922	10,238	234	124	6,093	47,446
Other payables	17,314	–	–	–	–	–	17,314
Total financial liabilities	187,985	934,963	364,896	201,326	144	206,141	1,895,455

Interest Rate Risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced income in respect of the Company's interest bearing financial assets and financial liabilities.

The Company finances its obligations through the issue of Global Loan Note tranches. Six of the seven tranches of Global Loan Note in issue incur floating rates of interest. This floating rate of interest on borrowings is offset by interest earned on the corresponding Deemed Loan, Bank Account interest and securitisation credit enhancement. Should one month LIBOR move markedly, the originator could amend its pricing to ensure that the change in its funding costs would be largely offset by the change in interest receivable which in turn would benefit the Company. The seventh tranche of the Global Loan Note incurs a fixed 0.01% interest rate, as does its corresponding Deemed Loan tranche.

The Directors do not consider exposure to interest rate risk to be material as the Company has no material fixed rate assets or liabilities, it has a large excess of revenue and the originator of the Deemed Loan can amend its pricing to reflect marked changes in interest rates.

DELAMARE CARDS FUNDING 1 LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****13. FINANCIAL RISK MANAGEMENT (continued)**

The interest rate profile of financial assets and financial liabilities is as follows:

As at 31 December 2017	Interest charging basis	Effective interest rate
Assets		
Interest Receivable on:		
Deemed Loan	Interest bearing	n/a
Other receivables	Non-interest bearing	n/a
Liabilities		
Interest Payable on:		
Class A Global Loan Note (2014)	Floating	1 Mth LIBOR +0.45%-0.65%
Class D Global Loan Note (2014)	Fixed	0.01%
Class A Global Loan Note (2015)	Floating	1 Mth LIBOR +0.65%-0.80%
Class A Global Loan Note (2017)	Floating	1 Mth LIBOR +0.53%-0.65%
Loan payable	Floating	1 Mth LIBOR +1.00%
Other payables	Non-interest bearing	n/a
As at 31 December 2016		
Assets		
Interest Receivable on:		
Deemed Loan	Interest bearing	n/a
Other receivables	Non-interest bearing	n/a
Liabilities		
Interest Payable on:		
Class A Global Loan Note (2013)	Floating	1 Mth LIBOR +0.70%
Class A Global Loan Note (2014)	Floating	1 Mth LIBOR +0.45%-0.65%
Class D Global Loan Note (2014)	Fixed	0.01%
Class A Global Loan Note (2015)	Floating	1 Mth LIBOR +0.65%-0.80%
Loan payable	Floating	1 Mth LIBOR +1.00%
Other payables	Non-interest bearing	n/a

14. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There were no outstanding capital commitments or contingent liabilities at the year end (2016: £nil).

15. CONTROLLING PARTY

The entire share capital of the Company is held by Delamare Cards Holdco Limited, a company incorporated in the UK and registered in England. Copies of the Financial Statements of Delamare Cards Holdco Limited may be obtained from Sanne Company Secretaries (UK) Limited, Asticus Building, 2nd Floor, 21 Palmer Street, London, SW1H 0AD.

The Directors' decisions and control of the entity are carried out in accordance with the securitisation transaction documents set up for the benefit of Tesco Personal Finance plc. Therefore the Company's immediate parent company is Tesco Personal Finance plc, a company incorporated in the UK and registered in Scotland. The smallest group into which the Company is consolidated is Tesco Personal Finance plc. Copies of the consolidated Financial Statements of Tesco Personal Finance plc can be obtained from its registered office at EHQ, 2 South Gyle Crescent, Edinburgh, EH12 9FQ.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. CONTROLLING PARTY (continued)

The Company's ultimate parent undertaking and controlling party is Tesco PLC, a company incorporated in the UK and registered in England. Copies of the consolidated Financial Statements of Tesco PLC can be obtained from its registered office at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA. Tesco PLC is the largest group into which the Company is consolidated.

16. RELATED PARTY DISCLOSURE

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions, or one other party controls both.

The terms and conditions of any transactions with key management personnel and their related parties are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel or related entities on an arm's length basis.

During the year, the Company paid the Trust £25,979k in respect of servicer fee expenses and Company profit amount (2016: £26,410k). At year end, £4,841k was due to Delamare Cards Receivables Trustee Limited (2016: £4,666k).

The Company received £214,935k from the Trust (2016: £232,221k) in respect of finance collections.

In line with the Company's obligations under the securitisation transaction documents, the Company paid £178,954k to the Trust in respect of finance collections which were subsequently received by the Trust, and at no stage were the legal property of the Trust (2016: £193,913k). At year end, £17,789k was due from the Trust as part of these obligations (2016: £17,046k).

During the year, the Company paid the Trust £14,917k in relation to interest due on all tranches of the Global Loan Note, administrative expenses and Company profit amount (2016: £17,449k).

The Company held a Deemed Loan of £2,212.2m due from TPF plc (2016: £1,800.0m). At the year end, the Company had obligations to TPF plc of £13,604k in respect of finance collections (2016: £12,641k) and £57,109k in respect of loans (2016: £46,144k).

During the year, the Company issued four tranches of Global Loan Note with a total nominal value of £1,450m and increased its Class D Loan Note by £62.2m. All of the Loan Notes issued were purchased by MTN Issuer Plc. The Company also settled four tranches of Loan Note with a total nominal value of £950m.

At year end, £844k was due to MTN Issuer Plc in relation to interest due on the Global Loan Note (2016: £489k).

The Company was established by TPF plc, the ultimate parent Company of which is Tesco PLC, to facilitate the securitisation of credit card receivables originated by TPF plc.

J.R. Saout, M.C. Schnaier and B.M. Surnam are directors of Sanne Company Secretaries (UK) Limited.

17. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards, amendments and interpretations which became effective in the current year

During the year to 31 December 2017, the Company has adopted the following new accounting standards and amendments to standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2017:

Amendments to IAS 7 'Statement of cash flows: Disclosure initiative'

These amendments are effective for annual periods beginning on or after 1 January 2017. They extend the disclosures required by IAS 7 about an entity's liquidity and aim to improve disclosures about an entity's debt. These amendments have resulted in additional disclosures relating to movements in liabilities arising from financing activities for the Company. These additional disclosures are included in note 10.

DELAMARE CARDS FUNDING 1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards, amendments and interpretations issued but not yet effective

IFRS 9 'Financial instruments'

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It is a replacement for IAS 39 'Financial instruments: Recognition and Measurement', excluding the part of IAS 39 related to macro hedge accounting. Macro hedge accounting requirements are out of the scope of IFRS 9 and instead the IASB is developing a separate model. Entities are therefore permitted to continue accounting for macro hedge portfolios in line with IAS 39.

The principle features of IFRS 9 are as follows:

Classification and measurement of financial assets and financial liabilities:

IFRS 9 will require the Company's financial assets to be classified as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset. From a review of the Company's balance sheet as at 31 December 2017, the Company expects the following classification changes to take place:

- All financial assets that are currently classified as loans and receivables under IAS 39 will be classified and measured at amortised cost under IFRS 9.

There is no change in the measurement basis of these balances as a result of the adoption of IFRS 9.

Recognition of impairment:

IFRS 9 requires the Company to recognise expected credit losses (ECL) at all times, and to update the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial instruments. The ECL is measured under a three stage approach:

1. Upon origination of an asset, a loss allowance is established that is equal to the 12-month ECL, being the portion of life-time expected losses resulting from default events that are possible within the next 12 months. Financial assets where 12-month ECL is recognised are considered to be 'stage 1'.
2. Where a significant increase in credit risk since initial recognition is identified, a loss allowance equal to the lifetime ECL is established. This is considered to be 'stage 2'.
3. Where there is objective evidence that leads to an asset being considered credit impaired, a full impairment loss equal to the lifetime expected credit loss is established. This is considered to be 'stage 3' and it is not expected to materially change from IAS 39.

The assessment of credit risk and the estimation of ECL are required to be unbiased, forward looking and probability-weighted, determined by evaluating at the reporting date for each financial asset a range of possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The estimation of ECL also takes into account the time value of money.

There is no impact expected of these new impairment requirements for the Company on application of the new standard.

Hedging

The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with financial risk management. A new IFRS is under development to account for dynamic risk management. This requirement does not apply to the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 15 'Revenue from contracts with customers'

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 introduces a five step approach to revenue recognition and will be applicable to all contracts with customers, with certain exceptions. The Company's interest income falls outside the scope of IFRS 15 and will be accounted for in line with IFRS 9 from 1 March 2018 (refer above).

As all of the Company's income falls within the scope of IFRS 9, IFRS 15 is not expected to have any impact on the Company.

Amendments to IFRS 15 'Clarifications to IFRS 15, 'Revenue from Contracts with Customers''

These amendments are effective for annual periods beginning on or after 1 January 2018. They clarify how the principles of IFRS 15 should be applied in determining recognition of contract revenue and provide transitional relief on modified and completed contracts for entities implementing the standard.

As all of the Company's income falls within the scope of IFRS 9, IFRS 15 will have no impact on the Company.

IFRIC 22 'Foreign currency transactions and advance consideration'

This IFRIC is effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement. It clarifies the accounting for advance consideration in a transaction that is denominated in a foreign currency. This IFRIC is not expected to impact the Company.

Amendments to IFRS 9 'Prepayment features with negative compensation'

These amendments are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. They allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. These amendments are not expected to impact the Company.

IFRIC 23 'Uncertainty over income tax treatments'

This IFRIC is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. It clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. The impact of this IFRIC on the Company is still being assessed.

Early Adoption of New Standards

The Company did not early adopt any new or amended standards in the year ended 31 December 2017.

18. EVENTS AFTER THE REPORTING PERIOD

The process of accumulating funds in advance of the scheduled redemption of £300m of Class A (2015-1) Loan Note in April 2018 has continued since the end of the year, with a further £50m being accumulated by the Company in January 2018. The Deemed Loan has correspondingly reduced by £50m.

DELAMARE CARDS FUNDING 1 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF DELAMARE CARDS FUNDING 1 LIMITED

Report on the audit of the Financial Statements

Opinion

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of Delamare Cards Funding 1 Limited (the 'Company') which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

DELAMARE CARDS FUNDING 1 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF DELAMARE CARDS FUNDING 1 LIMITED

Report on the audit of the Financial Statements

Opinion

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of Delamare Cards Funding 1 Limited (the 'Company') which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF DELAMARE CARDS FUNDING 1 LIMITED (continued)

Other information

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

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

We have nothing to report in respect of these matters.

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.

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: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's member, 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 member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

DELAMARE CARDS FUNDING 1 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF DELAMARE CARDS FUNDING 1 LIMITED (continued)

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 and the Directors' Report.

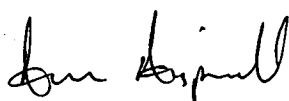
Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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.



Ann Aspinall, ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, UK

16 February 2018