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EDINBURGH**

**17 APR 2019**

**FRONT DESK**

# **DELAMARE CARDS FUNDING 1 LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**Company Number: 08356551**



## **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	30

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **DIRECTORS AND ADVISERS**

<b>Directors:</b>	B M Surnam M Speight C M Warnes
<b>Secretary:</b>	Sanne Group Secretaries (UK) Limited Asticus Building 2nd Floor 21 Palmer Street London SW1H 0AD
<b>Registered Office:</b>	Asticus Building 2nd Floor 21 Palmer Street London SW1H 0AD
<b>Independent Auditor:</b>	Deloitte LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2DB
<b>Bankers:</b>	HSBC Bank Plc 8 Canada Square London E14 5HQ  Bank of New York Mellon, London Branch 1 Canada Square London E14 5AL
<b>Cash Manager:</b>	Tesco Personal Finance Plc EHQ 2 South Gyle Crescent Edinburgh EH12 9FQ
<b>Servicer:</b>	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 2018.

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). The securitisation structure has been established as a means of raising finance for TPF.

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

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 £82,085k (2017: £69,454k) from TPF in relation to interest due on the Deemed Loan (note 1(i)). Interest proceeds were used to meet the Company's obligations on the Global Loan Note, payable to Delamare Cards MTN Issuer Plc (MTN Issuer), a fellow group undertaking, and to meet the administrative costs of the Company.

The Company made a profit for the year of £1k (2017: £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 April 2018, MTN Issuer settled a £300m 2015-1 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.

On 1 November 2018, MTN Issuer increased its Class D Medium Term Note by £27.8m and adjusted the scheduled repayment and contractual maturity date of the Class D Medium Term Note to November 2028 and November 2033 respectively. Simultaneously, the Company increased the size of the Class D Loan Note by £27.8m and adjusted the scheduled repayment and contractual maturity date to November 2028 and November 2033 respectively. MTN Issuer purchased the full £27.8m increase in the D Note and approved, as Loan Note Holder, the amended terms.

On 27 November 2018, MTN Issuer publicly issued a \$350m (£272.2m) Class A Medium Term Note. Simultaneously, the Company issued a notional £272.2m tranche of its Global Loan Note. This tranche was purchased by MTN Issuer. All proceeds received have been invested by the Company in the Trust, thereby increasing the Company's beneficial interest in the Trust property.

Overall, the Company's beneficial interest in the Trust decreased by £38k as a result of the above cash and non-cash transactions. The Company's Deemed Loan with TPF decreased by an equivalent amount.

MTN Issuer expects to settle a further £350m of AAA rated Class A Medium Term Note in May 2019. 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 will reduce accordingly each month over the accumulation period. At 31 December 2018, £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.

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 17 August 2018. On this date the Company retained £1.75m 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 £1.5m established during the prior year to protect the Class A Note settled in April 2018 was repaid during the current year.

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **STRATEGIC REPORT (continued)**

#### **STRATEGIC PRIORITIES**

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

#### **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 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) 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. 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.

##### ***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.

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **STRATEGIC REPORT (continued)**

#### ***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 under the terms of the servicing agreement as the Servicer of the credit card receivables.

TPF 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 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)**

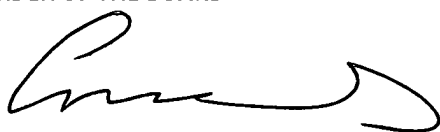
The Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the Company. However, a defined set of KPIs for the securitisation transaction are set out in the securitisation transaction documentation and published in the monthly Servicer Reports, available on [www.corporate.tescobank.com](http://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 2018.

#### **BY ORDER OF THE BOARD**



C.M. Warnes  
Director  
25 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 2018.

### **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 set out 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. Information relating to Management's assessment of impairment relating to the Company's financial assets is set out at note 1(f) to the Financial Statements.

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 (2017: £nil). The Directors do not recommend a final dividend for the year (2017: £nil). The Directors consider the results to be satisfactory and as expected in light of the Company's operating environment during the year.

### **DIRECTORS**

The present Directors, who have served throughout the year and up to the date of signing the Financial Statements, except where noted below, are listed on page 1.

Since 1 January 2018 to date the following changes have taken place:

	<b>Appointed</b>	<b>Resigned</b>
Marc Speight	24 April 2018	
Christopher Michael Warnes	14 December 2018	
Martin Charles Schnaier		16 February 2018
James Robert Saout		14 December 2018

### **EMPLOYEES**

The Company does not have any employees (2017: 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 30.

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 auditor 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.



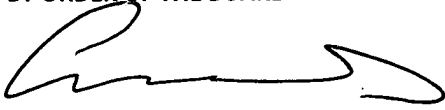
**DELAMARE CARDS FUNDING 1 LIMITED**

**DIRECTORS' REPORT (continued)**

**Independent Auditor**

The Auditor, Deloitte LLP, has indicated its willingness to continue in office and a resolution that Deloitte LLP be re-appointed will be proposed at the annual general meeting.

**BY ORDER OF THE BOARD**

A handwritten signature in black ink, appearing to be 'C.M. Warnes', written over the 'BY ORDER OF THE BOARD' text.

C.M. Warnes

Director

25 February 2018

**DELAMARE CARDS FUNDING 1 LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**For the year ended 31 December 2018**

	<b>Note</b>	<b>31 December 2018 £'000</b>	<b>31 December 2017 £'000</b>
Interest and similar income	2	82,085	69,454
Interest expense	2	(23,505)	(15,272)
Net interest income		<u>58,580</u>	<u>54,182</u>
Administrative expenses	3	(58,579)	(54,181)
<b>Profit before tax</b>		<u>1</u>	<u>1</u>
Income tax charge	4	-	-
<b>Profit and total comprehensive income for the year</b>		<u><u>1</u></u>	<u><u>1</u></u>

All items dealt with in arriving at the profit for the year ended 31 December 2018 related to continuing operations (2017: continuing operations).

There was no other comprehensive income for the year ended 31 December 2018 (2017: £nil).

**DELAMARE CARDS FUNDING 1 LIMITED****STATEMENT OF FINANCIAL POSITION****As at 31 December 2018****Company number 08356551**

	<b>Note</b>	<b>31 December 2018 £'000</b>	<b>31 December 2017 £'000</b>
<b>Assets</b>			
Cash and cash equivalents	5	158,335	157,093
Other receivables	6	69,192	67,789
Deemed Loan	7	2,212,162	2,212,200
<b>Total assets</b>		<b>2,439,689</b>	<b>2,437,082</b>
<b>Liabilities</b>			
Loan payable	8	58,482	57,109
Other payables	9	22,067	19,389
Global Loan Note	10	2,359,133	2,360,578
<b>Total liabilities</b>		<b>2,439,682</b>	<b>2,437,076</b>
<b>Equity</b>			
Share capital	11	–	–
Retained earnings		7	6
<b>Total equity</b>		<b>7</b>	<b>6</b>
<b>Total liabilities and equity</b>		<b>2,439,689</b>	<b>2,437,082</b>

The Financial Statements on pages 8 - 29 were approved by the Board of Directors and authorised for issue on 25 February 2019 and were signed on its behalf by:



C.M. Warnes

Director

**DELAMARE CARDS FUNDING 1 LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2018**

	<b>Share Capital £'000</b>	<b>Retained Earnings £'000</b>	<b>Total Equity £'000</b>
<b>Balance at 1 January 2018</b>	–	6	6
	–		
<b>Comprehensive Income</b>			
Profit and total comprehensive income for the financial year	–	1	1
<b>Balance at 31 December 2018</b>	<u>–</u>	<u>7</u>	<u>7</u>

	<b>Share Capital £'000</b>	<b>Retained Earnings £'000</b>	<b>Total Equity £'000</b>
<b>Balance at 1 January 2017</b>	–	5	5
<b>Comprehensive Income</b>			
Profit and total comprehensive income for the financial year	–	1	1
<b>Balance at 31 December 2017</b>	<u>–</u>	<u>6</u>	<u>6</u>

**DELAMARE CARDS FUNDING 1 LIMITED**

**STATEMENT OF CASH FLOWS**

**For the year ended 31 December 2018**

	<b>Note</b>	<b>31 December 2018 £'000</b>	<b>31 December 2017 £'000</b>
<b>Cash flows from operating activities</b>			
Profit before tax		1	1
Interest received on Deemed Loan		(23,505)	(15,272)
Interest paid on Global Loan Note		23,505	15,272
(Decrease) in other receivables		(970)	(388)
Increase in other payables		1,220	1,138
<b>Net cash flows generated from operating activities</b>		<b>252</b>	<b>751</b>
<b>Cash flows from investing activities</b>			
Investment in Deemed Loan		(272,162)	(300,000)
Reduction in Deemed Loan		300,000	250,000
Interest received on Deemed Loan		23,505	14,917
<b>Net cash flows generated from/(used in) investing activities</b>		<b>51,343</b>	<b>(35,083)</b>
<b>Cash flows from financing activities</b>			
Global Loan Note issued		272,162	300,000
Global Loan Note redeemed		(300,000)	(150,000)
Issuance costs		(1,452)	(1,043)
Interest paid on Global Loan Note		(23,505)	(14,917)
Loan facility received		9,943	38,311
Loan facility paid		(7,500)	(25,208)
<b>Net cash flows (used in)/generated from financing activities</b>		<b>(50,352)</b>	<b>147,143</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,242</b>	<b>112,811</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>157,093</b>	<b>44,282</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>5</b>	<b>158,335</b>	<b>157,093</b>

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **1. ACCOUNTING POLICIES**

##### **Basis of Preparation**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) 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 as modified by financial instruments recognised at fair value.

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.

New and amended accounting standards adopted by the Company in the year are set out in note 17.

##### **Going Concern**

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. The Company adopted IFRS 9 'Financial instruments' with effect from 1 January 2018. IFRS 9 has been applied retrospectively at this date with no requirement to restate comparative periods.

##### **(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 United Kingdom (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. Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. 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 (Policy applicable from 1 January 2018)**

The Company classifies a financial instrument 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**

- **Classification and measurement**

The Company classifies its financial assets at amortised cost.

Management determine the classification of the Company's financial assets at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset.

All financial assets are measured at initial recognition at fair value, plus transaction costs.

Classification and subsequent measurement of financial assets depend on:

- The Company's business model for managing the financial asset; and
- The cash flow characteristic of the financial asset.

The business model reflects how the Company manages its financial assets in order to generate cash flows and is determined by whether the Company's objective is solely to collect contractual cash flows from the assets or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these models applies, the financial assets are classified at fair value through profit and loss.

In determining the business model, the Company considers past experience in collecting cash flows, how the performance of these financial assets is evaluated and reported to Management and how risks are assessed.

The Company's business model is to hold financial assets to collect contractual cash flows. The Company assesses whether cash flows associated with its financial assets represent solely payments of principal and interest (the SPPI test). When making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement.

##### ***Financial assets at amortised cost***

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified and subsequently measured at amortised cost. The carrying value of these financial assets is adjusted by any impairment loss allowance recognised and measured as described below.

- **Impairment**

The Company assesses on a forward-looking basis the expected credit losses (ECLs) associated with its financial assets carried at amortised cost. The Company recognises a loss allowance for such losses at each reporting date.

The measurement of ECLs reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **1. ACCOUNTING POLICIES (continued)**

In reaching the following conclusions, Management has also had regard to the potential impact of Brexit on the Company's financial assets.

Management has applied the low credit risk exemption available under IFRS 9 in its assessment of ECLs on the Deemed Loan. This is subject to the credit risk of the Deemed Loan not increasing significantly since origination. To assess the probability of default (PD) for the Deemed Loan, Management have used Standard & Poor's weighted long-term average PD data when applied to the AAA rated Medium Term Notes in Issue. The 12-month PD on AAA rated assets was determined to be nil. Therefore, the associated 12-month ECL for the Deemed Loan has been determined to be £nil.

The AAA rating exists for all Medium Term Notes except for the unrated £290m D Note. While this note is unrated there are a number of credit enhancements available to protect noteholders from suffering any losses. 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 and a programme reserve) from which Global Loan Note shortfalls can be drawn. Given the absence of any indications that the Delamare Cards structure is at risk of default, the PD and hence the ECLs for the portion of the Deemed Loan related to the unrated D Note is determined to be £nil.

Management has also applied the low credit risk exemption available under IFRS 9 in its assessment of ECLs on amounts included in other receivables. This is subject to the credit risk of the other receivables not increasing significantly since origination which, given the nature of the balances, occurs each month. Given the absence of any indications that the Delamare Cards structure is at risk of default, the PD and hence the ECLs for the other receivables balance is determined to be £nil.

#### **Financial liabilities**

- **Classification and measurement**

All of the financial liabilities held by the Company are classified and measured at amortised cost using the EIR method, after initial recognition at fair value. Fair value is calculated as the issue proceeds, net of premiums, discounts and transaction costs incurred.

#### **Derecognition**

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.

#### **(g) Financial instruments (Policy applicable before 1 January 2018)**

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



## **DELAMARE CARDS FUNDING 1 LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Financial assets**

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

##### **Financial liabilities**

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

##### **Recognition/derecognition of financial instruments**

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

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

##### **Impairment of financial assets**

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

If there was objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables had been incurred, the Company measured 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 were assessed individually for financial assets that were individually significant and collectively for financial assets that were not individually significant. In making the collective assessment of impairment, financial assets were grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios were estimated on the basis of the estimated cash recoveries and historical loss experience for financial assets with similar credit risk characteristics. Impairment allowances were recorded within the Statement of Comprehensive Income.

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

##### **(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 were considered to be the same as the Notes in Issue which have been issued by Delamare Cards MTN Issuer (MTN Issuer).

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **1. ACCOUNTING POLICIES (continued)**

##### **(i) 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 and held in Trust by Delamare Cards Receivables Trustee Limited (the Trustee). These credit card receivables have been equitably assigned by TPF to the Trustee. However, this has not resulted in TPF passing on substantially all the risks and rewards associated with the credit card receivables. Accordingly, the credit card receivables remain on TPF's Statement of Financial Position and the Company has recognised a Deemed Loan with TPF.

##### **(j) Other payables**

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

##### **(k) Loan payable**

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

##### **(l) 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, 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 are capitalised and amortised over the life of the Notes in Issue.

##### **(m) Critical accounting judgements and estimates**

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

**DELAMARE CARDS FUNDING 1 LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. NET INTEREST INCOME**

	31 December 2018 £'000	31 December 2017 £'000
<b>Finance income</b>		
Interest receivable on Deemed Loan	82,085	69,454
Interest and similar income	<u>82,085</u>	<u>69,454</u>
<b>Finance cost</b>		
Class A Global Loan Note	(23,479)	(15,251)
Class D Global Loan Note	(26)	(21)
Interest expense	<u>(23,505)</u>	<u>(15,272)</u>
Net interest income	<u><u>58,580</u></u>	<u><u>54,182</u></u>

**3. ADMINISTRATIVE EXPENSES**

	31 December 2018 £'000	31 December 2017 £'000
Administration expense	25,763	21,279
Loan note holder default expense	<u>32,816</u>	<u>32,902</u>
	<u><u>58,579</u></u>	<u><u>54,181</u></u>

The loan note holder default expense represents the investors share of card default expenses.

No emoluments were due to the Directors for their services to the Company during the year ended 31 December 2018 and up to the date of this report (2017: £nil).

The Company does not have any employees (2017: none).

Audit fees for the year were £13,648 (2017: £12,875), 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 19% for the year (2017: 19.25%). The standard rate of corporation tax in the UK was changed from 20% to 19% with effect 1 April 2017.

	31 December 2018 £'000	31 December 2017 £'000
<b>Analysis of charge in the year</b>		
Profit on ordinary activities before tax	<u>1</u>	<u>1</u>
Profit on ordinary activities before tax multiplied by the rate of corporation tax of 19% (2017: 19.25%)	-	-
Income tax charge	<u><u>-</u></u>	<u><u>-</u></u>

**DELAMARE CARDS FUNDING 1 LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)****5. CASH AND CASH EQUIVALENTS**

	31 December 2018 £'000	31 December 2017 £'000
Cash at bank	158,335	157,093
	<u>158,335</u>	<u>157,093</u>

Cash and cash equivalents are classified as current (2017: current).

**6. OTHER RECEIVABLES**

	31 December 2018 £'000	31 December 2017 £'000
Amounts due from Delamare Cards Receivable Trustee Limited	69,192	67,789
	<u>69,192</u>	<u>67,789</u>

Other receivables are non-interest bearing and classified as current (2017: current).

**7. DEEMED LOAN**

	31 December 2018 £'000	31 December 2017 £'000
Amounts due from TPF	2,212,162	2,212,200
	<u>2,212,162</u>	<u>2,212,200</u>

During the year, the Company made a net divestment of funds out of the Trust of £38k, resulting in a decrease in the beneficial interest in the Trust. The Deemed Loan is classified as non-current (2017: non-current) with the exception of £200m classified as current in relation to the scheduled redemption by the Company in May 2019 of the £350m Class A (2014-1) 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 2018, £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.

At 31 December 2017, £150m was classified as current in respect of the redemption by the Company in April 2018 of the £300m Class A (2015-1) notional tranche of the Global Loan Note.

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

**DELAMARE CARDS FUNDING 1 LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**8. LOAN PAYABLE**

	<b>31 December 2018 £'000</b>	<b>31 December 2017 £'000</b>
Amounts due to TPF	58,482	57,109
	<u>58,482</u>	<u>57,109</u>
Current	9,528	7,500
Non-current	48,954	49,609

**9. OTHER PAYABLES**

	<b>31 December 2018 £'000</b>	<b>31 December 2017 £'000</b>
Amounts due to Delamare Cards Receivables Trustee Limited	6,463	4,841
Amounts due to TPF	13,202	13,603
Other payables	7	7
Issuance costs payable	2,395	938
	<u>22,067</u>	<u>19,389</u>

Other payables are classified as current (2017: current).

**DELAMARE CARDS FUNDING 1 LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**10. GLOBAL LOAN NOTE**

	Contractual Maturity Date	Scheduled Redemption Date	31 December 2018 £'000	31 December 2017 £'000
<b>Global Loan Note tranches</b>				
<u>Principal</u>				
Class A (2014)	2019-21	2017-19	350,000	350,000
Class D (2014)	2028	2033	290,000	262,200
Class A (2015)	2020-22	2018-20	-	300,000
Class A (2017)	2022-24	2020-22	1,450,000	1,450,000
Class A (2018)	2025	2020	272,162	-
<u>Interest</u>				
Accrued interest on the Global Loan Note			1,277	844
			2,363,439	2,363,044
Unamortised issue costs			(4,306)	(2,466)
			2,359,133	2,360,578

**Reconciliation to Cashflow Statement**

	At 1 January 2018 £'000	Financing Cash flows £'000	Non-cash movements Fair value change £'000	Accrued Interest £'000	Other £'000	At 31 December 2018 £'000
Global Loan Note	(2,360,578)	50,352	-	(23,505)	(25,402)	(2,359,133)
<b>Total liabilities from financing activities</b>	<b>(2,360,578)</b>	<b>50,352</b>	<b>-</b>	<b>(23,505)</b>	<b>(25,402)</b>	<b>(2,359,133)</b>

During the year, the Company issued a further tranche of the Global Loan Note with a total nominal value of £272.2m and increased its Class D Loan Note by £27.8m. The transactions consisted of a £272.2m cash issue and a £27.8m non-cash issue. The Company also settled one tranche of Global Loan Note with a total nominal value of £300m. This was a cash transaction.

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 (2017: no defaults or other breaches).

The £350m Class A (2014-1) Loan Note is expected to be redeemed at its scheduled redemption date in May 2019. At the prior year end, £300m of the Class A (2015-1) Loan Note was due to be redeemed at its scheduled redemption date in April 2018.

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 2018 £	31 December 2017 £
<b>Authorised</b>		
Ordinary shares of £1 each	Unlimited	Unlimited
<b>Allocated, called up and fully paid</b>		
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 and financial liabilities are classified at amortised cost. Prior to the adoption of IFRS 9 on 1 January 2018 all of the Company's financial assets were classified as loans and receivables at amortised cost and all of its financial liabilities were classified as other liabilities at amortised cost. Refer to note 17 for further details.

##### 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 2017.

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).

**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 2018 (2017: no transfers).

## DELAMARE CARDS FUNDING 1 LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 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 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.

The table below presents the arrears performance for the credit card receivables in which the Company has a beneficial interest along with TPF. 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 it has failed to make a contractual payment when due.

31 December 2018	Accounts No.'000	Value £'000	% of Total
Neither past due nor impaired	2,716	3,309,837	98.84
Past due but not impaired	17	58,325	0.63
Impaired	15	61,130	0.53
	<u>2,748</u>	<u>3,429,292</u>	<u>100.00</u>

31 December 2018	Accounts No.'000	Value £'000	% of Total
Non delinquent	2,716	3,309,837	98.84
1 month past due	11	32,653	0.40
2 months past due	3	13,545	0.12
3 months past due	3	12,127	0.11
Greater than 3 months past due	15	61,130	0.53
	<u>2,748</u>	<u>3,429,292</u>	<u>100.00</u>



**DELAMARE CARDS FUNDING 1 LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**13. FINANCIAL RISK MANAGEMENT (continued)**

<b>31 December 2017</b>	<b>Accounts No.'000</b>	<b>Value £'000</b>	<b>% of Total</b>
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
	<b>2,931</b>	<b>3,688,417</b>	<b>100.00</b>

<b>31 December 2017</b>	<b>Accounts No.'000</b>	<b>Value £'000</b>	<b>% of Total</b>
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
	<b>2,931</b>	<b>3,688,417</b>	<b>100.00</b>

The Company has a concentration risk in relation to the originator, TPF. 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.

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.

<b>Counterparty</b>	<b>Long Term Rating as at 31 December 2018 and date of approval of Financial Statements</b>		<b>Long Term Rating as at 31 December 2017</b>
	<b>(Moody's/S&amp;P/Fitch)</b>		<b>(Moody's/S&amp;P/Fitch)</b>
Bank account provider	HSBC Bank plc	Aa3/AA-/AA-	Aa3/AA-/AA-
	Bank of New York Mellon	Aa3-/A/A+	Aa2/AA-/AA-

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

<b>31 December 2018</b>	<b>Within 1 year £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 3 years £'000</b>	<b>Between 3 and 4 years £'000</b>	<b>Between 4 and 5 years £'000</b>	<b>Beyond 5 years £'000</b>	<b>Total £'000</b>
<b>Financial Assets</b>							
Cash and cash equivalents	158,335	–	–	–	–	–	158,335
Other receivables	69,192	–	–	–	–	–	69,192
<b>Deemed Loan</b>							
Principal	200,000	572,162	–	1,150,000	–	290,000	2,212,162
Interest	21,676	24,148	21,310	18,441	29	12	85,616
<b>Total financial assets</b>	<b>449,203</b>	<b>596,310</b>	<b>21,310</b>	<b>1,168,441</b>	<b>29</b>	<b>290,012</b>	<b>2,525,305</b>
<b>Financial Liabilities</b>							
<b>Global Loan Note</b>							
Principal	350,000	572,162	–	1,150,000	–	290,000	2,362,162
Interest	21,676	24,148	21,310	18,441	29	12	85,616
Loan payable	12,901	10,218	7,835	19,627	33	1,464	52,078
Other payables	22,067	–	–	–	–	–	22,067
<b>Total financial liabilities</b>	<b>406,644</b>	<b>606,528</b>	<b>29,145</b>	<b>1,188,068</b>	<b>62</b>	<b>291,476</b>	<b>2,521,923</b>

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

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
<b>Financial Assets</b>							
Cash and cash equivalents	157,093	–	–	–	–	–	157,093
Other receivables	67,789	–	–	–	–	–	67,789
<b>Deemed Loan</b>							
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
<b>Total financial assets</b>	<b>398,115</b>	<b>373,155</b>	<b>322,670</b>	<b>19,870</b>	<b>1,167,546</b>	<b>262,237</b>	<b>2,543,593</b>
<b>Financial Liabilities</b>							
<b>Global Loan Note</b>							
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
<b>Total financial liabilities</b>	<b>352,241</b>	<b>384,368</b>	<b>331,387</b>	<b>20,860</b>	<b>1,197,146</b>	<b>263,591</b>	<b>2,549,593</b>

**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 minimal fixed 0.01% interest rate.

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:

<b>As at 31 December 2018</b>	<b>Interest charging basis</b>	<b>Effective interest rate</b>
<b>Assets</b>		
Interest Receivable on:		
Deemed Loan	Interest bearing	n/a
Other receivables	Non-interest bearing	n/a
<b>Liabilities</b>		
Interest Payable on:		
Class A Global Loan Note (2014)	Floating	1 Mth LIBOR +0.65%
Class D Global Loan Note (2014)	Fixed	0.01%
Class A Global Loan Note (2017)	Floating	1 Mth LIBOR +0.53%-0.65%
Class A Global Loan Note (2018)	Floating	1 Mth LIBOR + 0.836%
Loan payable	Floating	1 Mth LIBOR +1.00%
Other payables	Non-interest bearing	n/a
<b>As at 31 December 2017</b>		
<b>Assets</b>		
Interest Receivable on:		
Deemed Loan	Interest bearing	n/a
Other receivables	Non-interest bearing	n/a
<b>Liabilities</b>		
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

**14. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

There were no outstanding capital commitments or contingent liabilities at the year end (2017: £nil).

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **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 its registered office at 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.

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 £34,488k in respect of servicer fee expenses and Company profit amount (2017: £25,979k). At year end, £6,463k was due to Delamare Cards Receivables Trustee Limited (2017: £4,841k).

The Company received £236,437k from the Trust (2017: £214,935k) in respect of finance collections.

In line with the Company's obligations under the securitisation transaction documents, the Company paid £187,637k 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 (2017: £178,954k). At year end, £19,192k was due from the Trust as part of these obligations (2017: £17,789k).

During the year, the Company paid the Trust £23,072k in relation to interest due on all tranches of the Global Loan Note, administrative expenses and Company profit amount (2017: £14,917k).

The Company held a Deemed Loan of £2,212.2m due from TPF (2017: £2,212.2m). At the year end, the Company had obligations to TPF of £13,201k in respect of finance collections (2017: £13,604k) and £58,482k in respect of loans (2017: £57,109k).

During the year, the Company issued a tranche of Global Loan Note with a total nominal value of £272.2m and increased its Class D Loan Note by £27.8m. All of the Loan Notes issued or increased were purchased by MTN Issuer. The Company also settled one tranche of Loan Note with a total nominal value of £300m.

During the previous 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. The Company also settled four tranches of Loan Note with a total nominal value of £950m.

At year end, £1,277k was due to MTN Issuer in relation to interest due on the Global Loan Note (2017: £844k).

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

B.M. Surnam, M. Speight and C.M. Warnes are directors of Sanne Company Secretaries (UK) Limited.

## DELAMARE CARDS FUNDING 1 LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 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 2018, 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 2018:

##### **IFRS 9 'Financial instruments'**

IFRS 9 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 requires 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.

At the date of transition to IFRS 9 all financial assets that were classified as loans and receivables under IAS 39 have been 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'.

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.

As set out at note 1, there has been no impact of these new impairment requirements for the Company.

##### **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 as it does not currently undertake any hedging activity.

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **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 introduces a five step approach to revenue recognition and is applicable to all contracts with customers, with certain exceptions.

There has been no impact of the adoption of IFRS 15 for the Company as none of the Company's income falls within the scope of IFRS 15. All of the Company's interest income is accounted for in line with IFRS 9.

##### **Amendments to IFRS 15 'Clarifications to IFRS 15, 'Revenue from contracts with customers''**

These amendments 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.

There has been no impact of the adoption of these amendments to IFRS 15 for the Company as none of the Company's income falls within the scope of IFRS 15. All of the Company's interest income is accounted for in line with IFRS 9.

##### **IFRIC 22 'Foreign currency transactions and advance consideration'**

This IFRIC is effective for annual periods beginning on or after 1 January 2018. It clarifies the accounting for advance consideration in a transaction that is denominated in a foreign currency. There has been no impact on the Company of the adoption of this IFRIC.

#### **Standards, amendments and interpretations issued but not yet effective**

##### **Amendments to IFRS 9 'Prepayment features with negative compensation'**

These amendments are effective for annual periods beginning on or after 1 January 2019. 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 2018.

#### **18. EVENTS AFTER THE REPORTING PERIOD**

The process of accumulating funds in advance of the scheduled redemption of £350m of Class A (2014-1) Loan Note in May 2018 has continued since the end of the year, with a further £50m being accumulated by the Company in both January and February 2019. The Deemed Loan has correspondingly reduced by a further £100m.

## **DELAMARE CARDS FUNDING 1 LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DELAMARE CARDS FUNDING 1 LIMITED**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Delamare Cards Funding 1 (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31st December 2018 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 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 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 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 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**

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

**DELAMARE CARDS FUNDING 1 LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS 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**

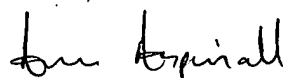
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.



Ann Aspinall, ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, UK

25 February 2019