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DELAMARE CARDS FUNDING 2 LIMITED

ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Company Number: 08356565



DELAMARE CARDS FUNDING 2 LIMITED

DIRECTORS AND ADVISERS

Directors: B M Surnam
M Speight
C M Warnes

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

Bankers: HSBC Bank Plc
8 Canada Square
London
E14 5HQ

Cash Manager: Tesco Personal Finance Plc
EHQ
2 South Gyle Crescent
Edinburgh
EH12 9FQ

Servicer: Tesco Personal Finance Plc
EHQ
2 South Gyle Cresecent
Edinburgh
EH12 9FQ

DELAMARE CARDS FUNDING 2 LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for Delamare Cards Funding 2 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 or acquired by Tesco Personal Finance Plc (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 Company is incorporated and domiciled in the United Kingdom, where all of its business activities take place, and is 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 holders of any Global Loan Notes issued by the Company. As such, these have not been reproduced in full in these Financial Statements.

BUSINESS PERFORMANCE

The Company has not traded during the year.

STRATEGIC PRIORITIES

The Company is currently dormant. No future changes in the activities of the Company are envisaged.

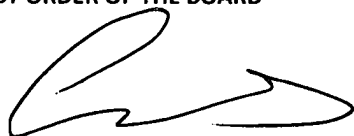
PRINCIPAL RISKS AND UNCERTAINTIES

There are no risks or uncertainties which are considered relevant to the activities of the Company due to its dormant status.

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.

BY ORDER OF THE BOARD



C.M. Warnes
Director
25 February 2019

DELAMARE CARDS FUNDING 2 LIMITED

DIRECTORS' REPORT

The Directors present their Annual Report and the unaudited Financial Statements 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 page 2.

RISK MANAGEMENT

The Company's risk management disclosures are set out in the Strategic Report on page 2.

GOING CONCERN

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

Given its dormant status, the Directors do not anticipate any external changes in the business environment which would adversely impact the Company.

As a result of this assessment, the Directors consider the Company to be in a satisfactory financial position and confirm that the Company has confidence 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 given the Company's dormant status 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:

	Appointed	Resigned
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 page 2 of this Annual Report.

DELAMARE CARDS FUNDING 2 LIMITED

DIRECTORS' REPORT (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare 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 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 are 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 result 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.

BY ORDER OF THE BOARD



C.M. Warnes
Director
25 February 2019

DELAMARE CARDS FUNDING 2 LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

Company number 08356565

	Note	31 December 2018 £	31 December 2017 £
Assets			
Other receivables	2	1	1
Total assets		<u>1</u>	<u>1</u>
Equity			
Share capital	3	1	1
Retained earnings		–	–
Total equity		<u>1</u>	<u>1</u>
Total liabilities and equity		<u>1</u>	<u>1</u>

For the year ended 31 December 2018 the Company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies.

Directors' responsibilities:

- The member has not required the Company to obtain an audit of its Financial Statements for the period in question in accordance with section 476 of the Companies Act 2006; and
- The Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of Financial Statements.

The Financial Statements on pages 5 – 11 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 2 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.

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 7.

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) 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 determines 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 or loss.

DELAMARE CARDS FUNDING 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (Continued)

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.

Management has applied the low credit risk exemption available under IFRS 9 in its assessment of ECLs on amounts included in other assets. This is subject to the credit risk of the other receivables not increasing significantly since origination. In reaching this conclusion. Given the absence of any indications that the Delamare Cards structure is at risk of default, the probability of default and hence the ECLs for the other Management has 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 assets balance is determined to be £nil.

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.

DELAMARE CARDS FUNDING 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (Continued)

(b) Financial instruments (Policy applicable before 1 January 2018)

The Company classified financial instruments 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.

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.

Recognition/derecognition of financial assets

The financial assets classified as loans and receivables 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 expired or where substantially all of the risks and rewards of ownership had been transferred and the transfer qualified for derecognition.

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.

DELAMARE CARDS FUNDING 2 LIMITED**NOTES TO THE FINANCIAL STATEMENTS (Continued)****2. OTHER RECEIVABLES**

	31 December 2018 £	31 December 2017 £
Amounts due from Delamare Cards Holdco Limited	1	1
	<u>1</u>	<u>1</u>

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

3. SHARE CAPITAL

	31 December 2018 £	31 December 2017 £
Authorised		
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>
Allotted, called up and fully paid		
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

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

4. CONTROLLING PARTY

The entire share capital of the Company is held by Delamare Cards Holdco Limited, a company incorporated in the United Kingdom (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.

5. 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.

The Company was established by Tesco Personal Finance Plc (TPF), the ultimate parent company of which is Tesco PLC, to facilitate the securitisation of credit card receivables originated by TPF.

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

DELAMARE CARDS FUNDING 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. FINANCIAL INSTRUMENTS

Classification of financial assets

All of the Company's financial assets 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. Refer to note 7 for further details.

Fair values of financial assets

The Directors consider that the carrying value of other receivables recorded on the Statement of Financial Position is approximately equal to their fair value due to their short term nature.

7. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards, amendments and interpretations issued 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 (ECLs) at all times, and to update the amount of ECLs recognised at each reporting date to reflect changes in the credit risk of financial instruments. The ECLs are measured under a three stage approach:

1. Upon origination of an asset, a loss allowance is established that is equal to the 12-month ECLs, 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 ECLs are 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 ECLs 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 ECLs 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 ECLs also takes into account the time value of money.

DELAMARE CARDS FUNDING 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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.

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 it is currently dormant.

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 it is currently dormant.

Standards, amendments and interpretations issued but not yet effective

There are no new standards and amendments to standards which have been issued and are mandatory for accounting periods beginning on or after 1 January 2019 or later periods which are expected to be relevant to the Company.

Early adoption of new standards

The Company did not early adopt any new or amended standards in the year ended 31 December 2018.