CH

Annual Report & Financial Statements UK Credit Limited

For the Year Ended 31 December 2022

Company No. 06929807

Company Information

Company registration number	06929807
Registered office	25-27 Surrey Street Norwich England NR1 3NX
Directors	A C Turner G C Eke P J Hollander
Secretary	A Richardson
Auditor	Lovewell Blake LLP Chartered Accountants & Statutory Auditors Bankside 300 Peachman Way Broadland Business Park Norwich NR7 0LB

Contents

Strategic report

The directors present their report and the financial statements for the year ended 31 December 2022.

Principal activity

The Company's principal activity during the year was the provision unsecured homeowner loans (unsecured loans to owners of at least one residential property) alongside administering the accounts of its guarantor loans (unsecured loans guaranteed by a family member or friend) product, which is in run-off, in the United Kingdom.

Business review and future developments

2022 saw the Company post a profit before tax of £41,000 (2021: profit of £1,366,000) and saw its loan book decrease by 10% in the year to £13.4 million.

Since the Company launched its unsecured homeowner loan product in early 2022, lending volumes have grown steadily. In July 2022, the company obtained a facility with its immediate parent company, Norfolk Capital Limited, to continue expanding new lending operations. This facility, and funds generated from the guarantor loans product, have been used to grow the unsecured homeowner loan product.

In 2023, the Company plans to transfer its unsecured homeowner loan product business to another group company, leaving it to continue the run-off its guarantor loan book.

Strategic report

Financial key performance indicators

The key performance indicators ("KPIs") used to monitor and manage the Company's performance are set out below:

	2022	2021	Definition, method of calculation and analysis
Loan book	**£13,406k**	£14,941k	Loans to customer net of provision for impairment. There was a reduction is the guarantor loan book driven by no new lending, however this is offset by the new lending activity on the company's homeowner loan product.
Gross margin	**99%**	67%	Gross margin is the ratio of gross profit to sales expressed as a percentage. Gross margin increased in 2022 driven by lower amortisation of commissions paid to third party introducers and lower bad debt provisions as the loan book performed much better than anticipated. In addition, with limited funding facility balance outstanding in the year, the cost of funding reduced positively impacting the Gross margin.
Impairment charge percentage	**-2.4%**	3.2%	Impairment charge as a percentage of the average loan book balance. In 2022 the performance of the loan book has been much better than anticipated and significantly better than 2021.
Pre-tax profit	**£41k**	£1,366k	The reduction in Pre-tax profit in 2022 after a strong result in 2021, is due to additional staff costs to support the unsecured homeowner loan product, lower income from a shrinking guarantor loan book, and a provision increase relating to affordability complaints redress in the year.
Turnover per average loan balance	**30%**	35%	Turnover as a percentage of total average loans to customers. Average yield has remained broadly consistent with 2022. The drop seen, is in part due to the lower rates offered on the unsecured homeowner loan product.

Strategic report

Events subsequent to the balance sheet date

Details of events subsequent to the balance sheet date are set out in note 22 to the financial statements.

Principal risks and uncertainties

The Company's objective is to manage appropriately all of the risks that arise from its activities. Risk management is a fundamental part of the Company's business activity and is an essential component in its planning process. Risk oversight and ownership sits with the board of directors who regularly review the key risks.

The principal risks and uncertainties (including financial risks) impacting the Company are considered below:

Economic risk

The Company has an exposure to economic risk in respect of its trading performance and the recoverability of its loan assets. There is the risk that a deterioration in the economy as a result of a number of factors, including inflation pressure on UK households, will increase the risk that more customers will not have sufficient funds after their priority bills and debts. The result being a negative impact on the level of arrears in the lending book with a reduction in the Company's profitability. Management monitor the Company's exposure to economic risk through reviews of economic forecasts, regular meetings with sister companies and careful monitoring of the arrears experience and trends in the loan book.

Credit/counterparty risk

The Company has an exposure to credit risk in respect of cash, loans and receivables, which is the risk that the bank/customer as appropriate will be unable to pay the amounts in full as they fall due. Provisions are made to provide for losses that have been incurred or are foreseen at the balance sheet date in respect of loans advanced prior to the balance sheet date. Management carefully manage the Company's exposure to credit risk, through its lending processes across the credit lifecycle and through carefully managing the pricing, and customer quality. The credit risk in respect of cash is limited because the counterparties are banks with high credit ratings assigned by international ratings agencies.

Interest rate risk

The launch of the company's unsecured homeowner loan product in 2022 was initially funded through cash generated from the existing loan book. However, in July 2022 the business agreed a loan facility with its parent company, which is charged at variable rates linked to LIBOR. The Company loans monies to customers on predominantly fixed rates.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company actively monitors its cash flows and expected liabilities and ensures that it has the resources to meet its liabilities as they fall due at all times.

Strategic report

Principal risks and uncertainties (continued)

Regulatory risk

As a regulated business, the Company places significant importance on managing its operations in a way that effectively manages the risk of fines or censure through non-compliance with laws and regulations. The Directors identify all material legal and regulatory requirements and relevant voluntary codes and standards affecting the Company and work with business areas to determine how it applies. This is supported by review mechanisms to ensure compliance with material regulatory and legal obligations. The Board is responsible for ensuring compliance with laws and regulations.

The directors will revisit the appropriateness of the above policies should the Company's operations change in size and nature.

By order of the board

A Richardson
Company Secretary
30 March 2023

Directors' report

Results and dividends

The Company recorded a profit for the financial year of £33,000 (2021: profit of £1,110,000).

Dividends amounting to £2,500,000 (2021: £2,500,000) were paid in the year under review. The directors do not recommend the payment of a final dividend (2021: £nil).

Directors

Details of the directors who held office during the year and up to the date of signing of these financial statements are given below:

A C Turner
G C Eke
P J Hollander

Directors' qualifying third party indemnity provisions

During the year and up to the date of signing these financial statements, the Company had in force an indemnity provision in favour of the directors of UK Credit Limited against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

Directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

Directors' report

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board

A Richardson
Company Secretary
30 March 2023

Independent Auditor's Report to the Member of UK Credit Limited

Opinion

We have audited the financial statements of UK Credit Limited (the 'company') for the year ended 31 December 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Independent Auditor's Report to the Member of UK Credit Limited (continued)

Other information

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

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 has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

Independent Auditor's Report to the Member of UK Credit Limited (continued)

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.

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

The extent to which the audit was considered capable of detecting irregularities including fraud

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- we identified the laws and regulations applicable to the company through discussions with directors and other management, and from our commercial knowledge of the company and the sector in which it operates.
- we assessed the extent of compliance with laws and regulations through making enquiries of management and the directors. Our enquiries included discussions with the Compliance Officer responsible for this company.
- we reviewed minutes of director's meetings throughout the year for evidence of non-compliance with laws and regulations.
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the company's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

Independent Auditor's Report to the Member of UK Credit Limited (continued)

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships.
- reviewed internal controls in respect of journal entries and tested journal entries considered large and/or unusual.
- assessed whether judgements and assumptions made in determining accounting estimates were indicative of potential bias (with the assistance of an auditor's expert).

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing material financial statement disclosures to supporting documentation to assess compliance with applicable laws and regulations
- reading the minutes of meetings of those charged with governance.
- enquiring of management as to actual and potential litigation and claims.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's member in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

Lovewell Blake LLP

Stephen Eagling BSc ACA (Senior Statutory Auditor)
For and on behalf of
Lovewell Blake LLP
Chartered Accountants & Statutory Auditors
Norwich
30 March 2023

Statement of comprehensive income

	Note	2022 £'000	2021 £'000
Turnover	5	**3,416**	6,524
Cost of sales		**(50)**	(2,159)
Gross profit		**3,366**	4,365
Administrative expenses		**(3,325)**	(3,032)
Other operating income	6	**-**	33
Operating profit and profit on ordinary activities before taxation	7	**41**	1,366
Tax on profit on ordinary activities	10	**(8)**	(256)
Profit for the financial year		**33**	1,110

The results for the current and comparative year relate entirely to continuing operations.

The Company has no recognised gains and losses other than the results above and therefore there is no other compressive income

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Balance sheet

	Note	**2022 £'000**	2021 £'000
Fixed assets			
Tangible assets	11	**13**	32
Current assets			
Debtors: amounts falling due within one year	12	**7,292**	8,592
amounts falling due after more than one year	12	**6,930**	6,775
Cash at bank and in hand		**564**	1,010
		14,786	16,377
Creditors: amounts falling due within one year	13	**(143)**	(260)
Net current assets		**14,643**	16,117
Total assets less current liabilities		**14,656**	16,149
Creditors: amounts falling due after more than one year	14	**(1,900)**	-
Provision for liabilities	15	**(482)**	(1,408)
Net assets		**12,274**	14,741
Capital and reserves			
Called up share capital	19	**-**	-
Share premium account	20	**11,100**	11,100
Profit and loss account	20	**1,174**	3,641
Total shareholders' funds		**12,274**	14,741

The financial statements were approved and authorised for issue by the board and were signed on its behalf by

A C Turner
Director
30 March 2023

UK Credit Limited
Registration number 06929807

The accompanying accounting policies and notes form part of these financial statements.

Statement of changes in equity

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2021	-	11,100	5,031	16,131
Profit for the year	-	-	1,110	1,110
Total comprehensive income for the year	-	-	1,110	1,110
Dividends paid	-	-	(2,500)	(2,500)
Balance as at 31 December 2021	**-**	**11,100**	**3,641**	**14,741**
Balance as at 1 January 2022	**-**	**11,100**	**3,641**	**14,741**
Profit for the year	-	-	33	33
Total comprehensive income for the year	**-**	**-**	**33**	**33**
Dividends paid			(2,500)	(2,500)
Balance as at 31 December 2022	**-**	**11,100**	**1,174**	**12,274**

Notes to the financial statements

1. Company information

UK Credit Limited ("the Company") provides unsecured homeowner loans (unsecured loans to owners of at least one mainland UK residential property) alongside administering the accounts of its guarantor loans (unsecured loans guaranteed by a family member or friend) product, which is in run-off.

The Company is incorporated and domiciled in the UK. The address of its registered office is 25-27 Surrey Street, Norwich, England, NR1 3NX.

2. Statement of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting policies

3.1 Basis of accounting

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom and with the Companies Act 2006. The principal accounting policies, which have been consistently applied to all the years presented, unless otherwise stated, are set out below.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Going concern

The directors of Turner Capital Limited, the Company's ultimate parent undertaking, have prepared projections in respect of the Group's cash requirements, which include the Company, and ongoing compliance with the terms of the Group's bank funding facilities. These projections have been assessed to determine the level of cash headroom available such as to enable the non-loan lending businesses to pay their debts as they fall due and to allow the Group to continue to operate within the financial and non-financial covenants contained in the Group's banking facility agreements, taking account of the mitigating courses of action available to the Group to enhance the level of such headroom.

The directors are required to make an assessment of the Company's ability to continue to trade as a going concern. The Directors have given this matter careful consideration and, in light of the above matters, have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Notes to the financial statements

Accounting policies (continued)

3.3 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the exemption from disclosing key management personnel compensation in total. This information is included within the consolidated financial statements of Norfolk Capital Limited which are available from Companies House. The Company has also taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cashflows, on the basis that it is a qualifying entity and its immediate parent undertaking, Norfolk Capital Limited, includes the Company's cashflows in its own consolidated financial statements.

3.4 Revenue recognition

The Company recognises revenue as follows:

Interest income

Interest income is recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant accounting period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset to the net carrying amount of the financial asset.

3.5 Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans
The Company operates a defined contribution plan for its employees, through the Norfolk Capital group scheme, which is administered by Norfolk Capital Management Services Limited, a sister company in the Turner Capital group. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

3.6 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Notes to the financial statements

Accounting policies (continued)

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except that unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

3.7 Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation and residual values

Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

- Computer equipment – 4 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in administrative expenses.

3.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Notes to the financial statements

Accounting policies (continued)

3.9 Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

(ii) Contingencies

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

3.10 Financial instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Loans to customers are subject to a variety of interest arrangements, including fixed or variable interest rates. The directors consider that the loans to customers meet the definition of "basic" under FRS 102 and they have been accounted for as such.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows, discounted at the asset's original effective interest rate, where applicable. The impairment loss is recognised in profit or loss.

Notes to the financial statements

Accounting policies (continued)

A monthly review of the Company's guarantor loan book is undertaken to determine the level of the provision required. The provision methodology assesses the book using historic "flow through" rates, less recovery rates based on collection activity for accounts with arrears greater than six months.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Transaction costs incurred in connection with the establishment of loan facilities are deducted from the initial amount recognised as a financial liability. These costs are, therefore, included in the calculation of amortised cost using the effective interest method and consequently are recognised in the statement of comprehensive income over the life of the instrument.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires or when the terms of an existing financial liability are 'substantially modified'.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements

Accounting policies (continued)

3.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.12 Distributions to equity holders

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

3.13 Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

3.14 Government grants

Government grant income included within other operating income represents amounts receivable in respect of the Coronavirus Job Retention Scheme (CJRS). This income is recognised at the fair value of the asset received or receivable. This grant income has been recognised using the performance model and the income has been recognised in the period to which the employee service relates.

4. Critical accounting estimates and estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Impairment of loans to customers

The Company makes an estimate of the likely losses on loans to customers and provides for this loss. The provision represents management's best estimate of all losses incurred at the balance sheet date. The estimates are based on the likelihood of a customer defaulting and the subsequent loss on default. See note 12 for the net carrying amount of the loan book debtors.

(ii) Provision for affordability complaints

The Company makes a provision against the cost of making redress payments in relation to affordability complaints. The provision represents management's best estimate of the costs to settle future claims for redress. Further information in respect of the affordability complaints provision is given in notes 15 and 17.

Notes to the financial statements

5. Turnover

Turnover represents interest and fees on loan advances received and receivable in the United Kingdom.

6. Other operating income

Other operating income represents the government grants received in the year under the Coronavirus Retention Scheme, and is recognised on an accruals basis.

	2022	2021
	£'000	£'000
Grant Income: Coronavirus Job Retention Scheme	-	33

7. Operating profit

Operating profit is stated after charging/(crediting):

	2022	2021
	£'000	£'000
Payments made under operating lease for property	98	113
Depreciation of owned tangible assets	19	24
Impairment of customer loans	(267)	586
Services provided by the Company's auditors:		
Fees payable for the audit	16	8
Fees payable for other services – tax compliance	3	4

8. Employees and directors

Employees

Staff costs, including director's remuneration, were as follows:

	2022	2021
	£'000	£'000
Wages and salaries	1,603	1,844
Social security costs	174	187
Other pension costs	136	159
	1,913	2,190

The monthly average number of employees of the Company (including directors) during the year was as follows:

	2022	2021
	Number	Number
By activity:		
Sales and administration	51	68

Notes to the financial statements

8. Employees and directors (continued)

Directors

The directors' emoluments were as follows:

	2022	2021
	£'000	£'000
Emoluments	**128**	121
Company pension contributions to money purchase schemes	**19**	18
	147	139

One director is employed by the Company; the others are employed by the Norfolk Capital Group's management services company, Norfolk Capital Management Services Limited, in respect of whom £nil of emoluments (2021: £nil) were payable for their services to the Company. One director (2021: one directors) received contributions to a defined contribution pension scheme.

9. Interest expense

Interest payable and similar charges

	2022	2021
	£'000	£'000
Included in cost of sales:		
Interest payable on bank loans	**-**	124
Interest payable on loans from the parent undertaking	**31**	103
	31	227

Notes to the financial statements

10. Income tax

a) Tax expense included in profit or loss

	2022 £'000	2021 £'000
Current tax		
Corporation tax charge for the year	10	260
Adjustments in respect of prior year	-	(1)
	10	259
Deferred tax		
Origination and reversal of timing differences	(2)	(3)
	(2)	(3)
Total tax on profit on ordinary activities	8	256

b) Reconciliation of tax charge

The tax assessed on the profit on ordinary activities for the year is the same as (2021: lower than) the rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £'000	2021 £'000
Profit on ordinary activities before taxation	41	1,366
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	8	260
Expenses not deductible for tax purposes	1	-
Change in tax rates	(1)	(3)
Adjustments in respect of prior year	-	(1)
	8	256

Notes to the financial statements

11. Tangible assets

	Computer equipment £000
Cost	
At 1 January 2022	316
Additions	-
Disposals	-
At 31 December 2022	316
Accumulated depreciation	
At 1 January 2022	284
Charge for the year	19
At 31 December 2022	303
Net book amount	
At 31 December 2022	**13**
At 31 December 2021	**32**

Notes to the financial statements

12. Debtors

	2022 £'000	2021 £'000
Amounts falling due within one year:		
Loans to customers	**6,476**	8,166
Amounts owed by group undertakings	**84**	8
Corporation tax	**26**	-
Deferred tax (see below)	**10**	8
Prepayments and accrued income	**696**	410
	7,292	8,592
Amounts falling due after more than one year:		
Loans to customers	**6,930**	6,775
Total debtors	**14,222**	15,367

Amounts owed by group undertakings are unsecured, interest free have no fixed date of repayment and are repayable on demand.

Deferred tax

	2022 £'000	2021 £'000
Asset brought forward	**8**	5
Credited/(charged) to the profit and loss account (note 10a)	**2**	3
Asset carried forward	**10**	8

The above deferred tax assets arise in respect of fixed asset timing differences.

13. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Trade creditors	**54**	17
Amounts owing to parent undertaking	**6**	-
Corporation tax	**-**	157
Other creditors	**6**	13
Accruals and deferred income	**77**	73
	143	260

14. Creditors: amounts falling due after more than one year

	2022 £'000	2021 £'000
Loan from ultimate parent undertaking	**1,900**	-
	1,900	-

The Company has a loan facility of £5m with Norfolk Capital Limited, the immediate parent undertaking. At the year end, £1.9m had been drawn down in respect of this facility. Interest is paid on this facility at a margin over LIBOR. The loan is due for repayment on 30 June 2024.

Notes to the financial statements

15. Provision for liabilities

	Compensation payments to customers and related costs £'000
At 1 January 2022	1,408
Debited to the profit and loss account	602
Utilised during the year	(1,528)
At 31 December 2022	**482**

Compensation payments to customers and related costs
The Directors have provided for their best estimate of the costs which will be incurred by the company in settling claims received from customers in relation to affordability complaints. The ultimate liability is dependent on the level of future claims and the company's review of the validity of these claims.

16. Financial instruments

a) Summary
The Company has the following financial instruments:

	Note	**2022 £'000**	2021 £'000
Financial assets that are debt instruments measured at amortised cost:			
- Loans to customers	12	**13,406**	14,941
- Amounts owed by group undertakings	12	**84**	8
		13,490	14,949
Financial liabilities measured at amortised cost:			
- Trade creditors	13	**54**	17
- Amounts owed to parent undertaking	13,14	**1,906**	-
- Other creditors	13	**6**	13
		1,966	30

Notes to the financial statements

16. Financial instruments (continued)

b) Allowance account for customer loan impairments

Loans to customers is represented by the gross loans to customers, offset by an impairment provision. A monthly review of the Company's guarantor loan book is undertaken to determine the level of the provision required. The provision methodology assesses the book using historic "flow through" rates, less recovery rates based on collection activity for accounts with arrears greater than six months.

The movement on the impairment provision during the year is analysed as:

	2022	2021
	£'000	£'000
Opening balance at 1 January	**7,952**	8,368
Impairment losses recognised	**(267)**	586
Amounts written off	**(740)**	(1,002)
Closing balance at 31 December	**6,945**	7,952

c) Risks arising from financial instruments

i) Interest rate risk

As at the end of 2022 the Company had interest rate risk, in the form of loan from its parent company. Interest on drawings under its funding facility were charged at variable rates linked to LIBOR. The Company loans monies to customers on predominantly fixed rates.

ii) Credit risk

The Company has an exposure to credit risk in respect of cash, loans and receivables, which is the risk that the bank/customer as appropriate will be unable to pay the amounts in full as they fall due. Provisions are made to provide for losses that have been incurred or are foreseen at the balance sheet date in respect of loans advanced prior to the balance sheet date. Management carefully manage the Company's exposure to credit risk, through its lending processes across the credit lifecycle and through carefully managing the pricing, and customer quality.

For its guarantor-backed loans, the Company requires its customer loans to have a surety, or guarantor to stand behind the borrower. The role of the guarantor is to step into the customer's place if they are unable to pay. The guarantor is subject to the same underwriting process as the borrower and are of better credit quality than the borrower. For its unsecured homeowner loans, the Company requires its customers to be homeowners.

As part of the underwriting process the Company utilises an internally developed score-card to assess customer (and guarantor) credit worthiness. The score-card utilises various sources of information, including a credit reference agencies own score-card, to inform the score. The Company manually assesses affordability and suitability and only customers who pass all of these checks will be offered a loan.

The credit risk in respect of cash is limited because the counterparties are banks with high credit ratings assigned by international ratings agencies.

Notes to the financial statements

16. Financial instruments (continued)

As at 31 December 2022, all of the customer loans that were past due had been impaired. The gross customer loans and impairment provision is analysed as:

	2022 £'000	2021 £'000
Loans to customers (gross)	20,351	22,893
Impairment provision	(6,945)	(7,952)
Loans to customers (net)	13,406	14,941

Of the gross loan book of £20,351,000 (2021: £22,893,000), loans totalling £10,596,000 (2021: £12,672,000) were more than one monthly contractual payment in arrears.

iii) Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company actively monitors its cash flows and expected liabilities and ensures that it has the resources to meet its liabilities as they fall due at all times.

17. Contingent liabilities

Along with the majority of businesses in the sector, the Company receives complaints based on how affordability was assessed as part of the decision to lend.

At the start of the financial year, the company had a brought forward provision of £1.4m in respect of customer complaints redress. Utilisation during the year was £1.5m with a further £0.6m being charged / provided for customer complaints redress through the profit and loss account. This results in a carried forward provision of £0.48m as at 31 December 2022.

The current provision reflects the estimate of costs of redress relating to customer-initiated complaints and complaints raised by claims management companies (CMC) for which it has been concluded that a present constructive obligation exists, based on the latest information available. The provision has two components, firstly a provision for complaints received but not yet processed and secondly a provision for projected costs of potential future complaints where it is considered likely that customer redress will be appropriate, based on the available data on the type and volume of complaints received to date. There is significant uncertainty around: the emergence period of complaints; the activities of CMCs; and the developing view of the FOS on affordability assessments, all of which could significantly affect complaint volumes, uphold rates and redress costs.

Notes to the financial statements

18. Financial commitments

The Company had the following minimum lease payments under non-cancellable operating leases for each of the following periods:

	2022 £'000	2021 £'000
Payments value:		
Within one year	127	127
Within two to five years	95	221
	222	348

19. Called up share capital

	2022 £	2021 £
Allotted, called up and fully paid ordinary shares of £1 each	6	6

There is a single class of share and all shares rank pari passu.

20. Reserves

Profit and loss account
The profit and loss reserve includes all current and prior year retained profits and losses.

Share premium account
The share premium account includes the premium paid for shares issued during the current and prior years.

21. Dividends

	2022 £'000	2021 £'000
Interim cash dividends paid	2,500	2,500
	2,500	2,500

Notes to the financial statements

22. Events after the reporting period

On 15 March 2023, the Company issued one £1 ordinary share at a premium of £4,499,999. The consideration was settled by capitalisation of loans from Norfolk Capital Limited of £4,500,000.

On 20 March 2023, the Company's share premium account of £15,599,994, was cancelled, resulting in an uplift of the same amount to the Company's distributable reserves.

The Company has reached agreement in principle regarding the disposal, to its associated company, Norwich Trust Limited ("NorT"), of its business of originating and servicing unsecured homeowner loans. This will not occur until NorT has received authorisation from the FCA to conduct the regulated activities involved in originating and servicing such loans. The Company has decided in principle that, in the meantime, it will dispose of its unsecured homeowner loan book, which it will continue to service pending completion of the aforementioned business transfer. The loan book disposal is likely to be via a dividend in specie. As at 31 December 2022, the net book value of the Company's unsecured homeowner loan book (after provisions) was £5.3m.

Completion of the matters referred to in the previous paragraph will leave the Company to focus on serving its guarantor loan book in run-off.

23. Controlling parties

The ultimate parent undertaking is Turner Capital Limited, which is registered in the United Kingdom. The smallest group for which consolidated financial statements are prepared is Norfolk Capital Limited, which is registered in the United Kingdom and the immediate parent undertaking. The largest group for which consolidated financial statements are prepared is Turner Capital Limited. Copies of the consolidated financial statements can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Turner Capital Limited and its subsidiary companies are controlled by A C Turner, who is both a director of all Group companies and also the majority shareholder of Turner Capital Limited.