MONEYBARN NO.1 LIMITED
(Company Number 04496573)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

MONEYBARN NO.1 LIMITED
(Company Number 04496573)

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MONEYBARN NO.1 LIMITED
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DIRECTORS' REPORT

Moneybarn No.1 Limited (the 'company') is part of Provident Financial plc. Provident Financial plc is a public limited company, listed on the London Stock Exchange, which, together with its subsidiaries, forms the Provident Financial group (the 'group'). The immediate parent of the company is Moneybarn Group Limited.

Principal activities
The principal activity of the company is the provision of finance for the purchase of motor vehicles by individuals via conditional sale agreements.

Due to the company's net current liability position at the year-end, the ultimate parent undertaking Provident Financial plc, has confirmed its continued support for the company. Accordingly, the financial statements have been prepared on a going concern basis.

Results
The statement of comprehensive income for the year is set out on page 7. The profit for the year of £10.6m (2017: £5.6m) has been added to reserves.

Dividends
The directors are unable to propose the payment of a dividend in respect of the year ended 31 December 2018 (2017: £nil).

Directors
The directors of the company during the year ended 31 December 2018, all of whom were directors for the whole year then ended and to the date of this report, except where stated, were:

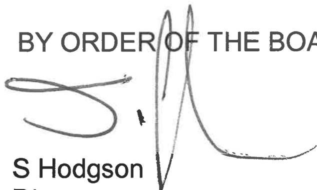
M J Le May (Chairman)	(Appointed 13 February 2018)
R W Anderson	(Resigned 11 December 2018)
A C Fisher	(Resigned 3 December 2018)
S Hodgson	
L S O'Loingsigh	(Appointed 1 August 2018)
S D K Law	(Resigned 13 April 2018)
P Minter	(Resigned 31 December 2018)
S G Thomas	(Appointed 3 December 2018)

Auditor information
In accordance with section 418 of the Companies Act 2006, each person who is a director at the date of this report confirmed that:

i) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
ii) he has taken all reasonable steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor
Deloitte LLP will continue as auditor to the company for the next financial year.

BY ORDER OF THE BOARD



S Hodgson
Director
Petersfield
5 April 2019

MONEYBARN NO.1 LIMITED
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STRATEGIC REPORT

Business review
The company recorded another year of strong growth of 24.6% in the IFRS 9 receivables book in 2018 (see Note 18). Due to higher upfront impairment charges under IFRS 9 and increased finance costs profit before taxation and exceptional costs amounted to £22.4m, less than the prior year of £27.4m (under an IAS 39 basis).

During the year, the company wrote 29,900 new contracts (2017: 25,300) and increased the portfolio of conditional sales financing agreements from 50,300 to 62,100. This increase was achieved from:

- a broader product range with improved onboarding systems and processes; and
- building upon the company's working relationships with brokers and intermediaries to improve volumes and efficiency.

Revenue increased by 23.5% to £117.9m (2017: £95.5m), primarily as a result of the receivables increase with revenue margins being broadly stable. Amounts receivable from customers increased by 9.7% to £416.5m (2017: £379.6m), with the underlying IFRS 9 comparable increasing by 24.6% (IFRS 9 2017: £334.2m see Note 18).

Pre-exceptional finance costs increased by 24.5% to £24.4m (2017: £19.6m) in line with the increase in IFRS 9 year-end receivables.

Pre-exceptional impairment charges increased by 54.8% to £48.0m (2017: £31.0m) primarily as a result of implementing IFRS 9 as well as business growth.

Pre-exceptional operating costs and administrative costs increased by 32% to £23.1m (2017: £17.5m) as a result of both the increase in receivables and investment in people and systems for maintaining future growth.

Regulation
Management continues to cooperate with the FCA with its ongoing investigation into affordability, forbearance and termination options. Management's best estimate of the potential liability in respect of the investigation of £20.0m was reflected in the 2017 financial statements and comprised a £12.1m balance adjustment to receivables with the remaining £7.9m reflected as a provision in respect of potential cash restitution, administration costs and an FCA fine.
£0.4m of the provision has been utilised in 2018 in respect of legal costs. The balance reduction adjustment has also reduced by £10.3m from £12.1m to £1.8m during 2018 reflecting the expected write down of gross receivables. Management has made significant progress towards a settlement of the investigation started by the FCA in November 2017, with the expected cost of the required customer redress and fine covered by the provisions made at the time. We have also enhanced our termination handling processes and affordability assessments in line with the latest requirements, working closely with the FCA throughout.

Principal risks and uncertainties and financial risk management
The Executive Committee of Moneybarn (consisting of Duncton Group Limited and its subsidiaries) is responsible for managing the day-to-day strategic risks of the Moneybarn group. Moneybarn is managed as a consolidated business, and the committees and risk management policies operate across Moneybarn. The Executive Committee delegates some of its responsibilities to sub-committees, set out on the following page.

The board approves detailed budgets and forecasts for the year ahead. It also approves outline projections for the subsequent four years. An update to the budget is approved in June of each year. Actual performance against these budgets is monitored in detail within the company's management accounts and this is supplemented with a rolling forecast of the full-year outturn. The Executive Committee meets each month to review the prior month performance of the company. This includes the management accounts and key financial and non-financial performance indicators. The company's management accounts also form part of the papers for each board meeting.

Credit risk is the principal risk faced by the company. The possibility that customers will fail to honour their contracts and the market value of the underlying vehicle will be insufficient security to cover the customer's outstanding liabilities. To mitigate this risk, the company has developed strong underwriting, loan to value and credit control policies, as well as an efficient disposal process.

Principal risks and uncertainties and financial risk management (continued)

The following committees all report to the Executive Committee which in turn reports to the board:

- Credit Committee, which reviews credit performance, approves underwriting rule changes, assesses new products or product changes and approves pricing changes.
- Policy Committee which meets bi-monthly and reviews and approves the company policies and reviews and acts upon the feedback from internal audits.
- Regulatory Change Committee which meets quarterly to review the impact of regulatory changes and any associated required actions, and review updates from major regulatory projects.
- Technology and Change Committee which meets monthly to review the programme, prioritisation and progress of projects.
- Executive Audit Committee which meets every other month to review progress of actions raised and the performance of 3 lines of defence, analysis of root causes and review of compliance monitoring plan.
- Complaints Committee which reviews complaints examples, trends and root causes.
- Risk Committee which oversees overall risk management and meets twice every quarter to:

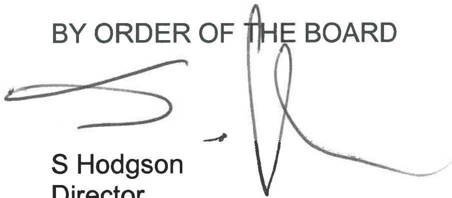
    - Consider and monitor the ongoing effectiveness of the company's risk management framework, including business systems and controls, risk policies and risk appetite.
    - Review the risk measures, risk dashboard and risk appetites.
    - Consider the appropriateness of risk specific classifications and proposed mitigants as set out in the risk dashboard.

The Risk Committee reports to the board.

Information on the management of specific financial risks including credit, market, liquidity, interest rate, and capital risks is provided on pages 16 to 18.

Going concern
Due to the company's retained deficit position at the year-end, as a result of the adoption of IFRS 9, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for at least the next 12 months from the date of signing these financial statements. Accordingly, the financial statements of the company have been prepared on a going concern basis of accounting. Further details on the basis of preparation are provided on page 11.

BY ORDER OF THE BOARD



S Hodgson
Director
Petersfield
5 April 2019

MONEYBARN NO.1 LIMITED
(Company Number 04496573)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors:

- properly select suitable accounting policies and apply them consistently;
- 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that 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.

MONEYBARN NO.1 LIMITED
(Company Number 04496573)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MONEYBARN NO.1 LIMITED

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Moneybarn No.1 Limited ('the company'):
- give a true and fair view of the state of the company's affairs as at 31 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
- 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 balance sheet;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies;
- financial and capital risk management; and
- the related notes 1 to 20.

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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MONEYBARN NO.1 LIMITED (CONTINUED)

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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.

Matthew Perkins (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
5 April 2019

MONEYBARN NO.1 LIMITED
(Company Number 04496573)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	IFRS 9 2018 £'000	IAS 39 2017 £'000
Revenue	1	117,928	95,526
Finance costs	2	(33,653)	(19,605)
Impairment charges	9	(48,042)	(43,056)
Administrative and operating costs		(23,125)	(25,442)
Total costs		(104,820)	(88,103)
Profit before taxation	3	13,108	7,423
Profit before taxation and exceptional costs		22,370	27,423
Exceptional costs	3	(9,262)	(20,000)
Tax charge	4	(2,475)	(1,835)
Profit and total comprehensive income for the year		10,633	5,588

All of the above operations relate to continuing operations.

MONEYBARN NO.1 LIMITED
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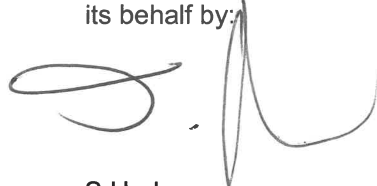
BALANCE SHEET

As at 31 December	Note	IFRS 9 2018 £'000	IAS 39 2017 £'000
ASSETS			
Non-current assets			
Intangible assets	6	49	58
Property, plant and equipment	7	-	-
Financial assets:			
- amounts receivable from customers	9	313,759	282,980
Deferred tax assets	11	7,545	60
		321,353	283,098
Current assets			
Financial assets:			
- cash and cash equivalents		1,710	2,908
- trade and other receivables	10	621	155
- amounts receivable from customers	9	102,734	96,667
Inventories		3,875	2,058
		108,940	101,788
Total assets		430,293	384,886
LIABILITIES			
Current liabilities			
Financial liabilities:			
- trade and other payables	12	(429,884)	(356,994)
Provisions	13	(7,509)	(7,897)
Current tax liabilities		(1,541)	(1,832)
		(438,934)	(366,723)
Total liabilities		(438,934)	(366,723)
NET (LIABILITIES)/ASSETS		(8,641)	18,163
SHAREHOLDER'S EQUITY			
Share capital	14	-	-
Retained (deficit)/earnings		(8,641)	18,163
TOTAL SHAREHOLDER'S (DEFICIT)/EQUITY		(8,641)	18,163

The financial statements on pages 7 to 31 were approved by the board of directors on 5 April 2019 and signed on its behalf by:



S Hodgson
Director

L S O'Loingsigh
Director

MONEYBARN NO.1 LIMITED
(Company Number 04496573)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £'000	Retained (deficit)/ earnings £'000	Total £'000
At 1 January 2017		-	12,575	12,575
Profit and total comprehensive income for the year		-	5,588	5,588
At 31 December 2017		-	18,163	18,163
At 1 January 2018		-	18,163	18,163
Impact of adoption of IFRS 9 'Financial Instruments'	18	-	(37,437)	(37,437)
Profit and total comprehensive income for the year		-	10,633	10,633
At 31 December 2018		-	(8,641)	(8,641)

MONEYBARN NO.1 LIMITED
(Company Number 04496573)

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	IFRS 9 2018 £'000	IAS 39 2017 £'000
Cash flow from operating activities			
Cash (used in)/generated from operations	17	(1,392)	2,195
Tax received/(paid)		205	(1,340)
Net cash (used in)/generated from operating activities		(1,187)	855
Cash flow from investing activities			
Purchase of intangible assets	6	(30)	-
Proceeds from disposal of property, plant and equipment	7	19	12
Net cash (used in)/generated from investing activities		(11)	12
Net (decrease)/increase in cash, cash equivalents and overdrafts		(1,198)	867
Cash, cash equivalents and overdrafts at beginning of year		2,908	2,041
Cash, cash equivalents and overdrafts at end of year		1,710	2,908

MONEYBARN NO.1 LIMITED
(Company Number 04496573)

STATEMENT OF ACCOUNTING POLICIES

General information

The company is a private limited liability company incorporated and domiciled in the UK. The address of its registered office is The New Barn, Bedford Road, Petersfield, Hampshire, GU32 3LJ.

Basis of preparation

The financial statements are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on a going concern basis under the historical cost convention. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the company's accounting policies.

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the company operates.

Principal accounting policies

The company's principal accounting policies under IFRS, which have been consistently applied to all the years presented unless otherwise stated, are set out below.

The following new standards, amendments to standards and interpretations are mandatory and were applied by the company for the first time in the financial year commencing 1 January 2018:

(a) New and amended standards adopted by the company:

IFRS 9 has been adopted by the group from the mandatory adoption date of 1 January 2018. Full details of the impact of adoption on the company can be found in note 18.

IFRS 15 has been adopted from 1 January 2018 with no material effect on the company. The standard establishes the principles to determine the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer. There are no fees charged to customers that are not already accounted for within the amortised costs of the conditional sale agreements. Interest income generated from Moneybarn's conditional sales agreements continues to be accounted for in accordance with IAS 17 'Leases'.

There has been no other new or amended standards adopted in the financial year beginning 1 January 2018 which had a material impact on the group or company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted:

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors and is effective from 1 January 2019.

The company is not currently the lessee of any assets in the normal course of business, so it is not expected that IFRS 16 will have a material impact on the company.

Interest income generated from Moneybarn's conditional sales agreements will be accounted for in accordance IFRS 16 however there will be no impact on the amounts recognised.

Revenue

Revenue comprises interest and fee income earned by the company and includes intra-group transactions and dividend received.

Revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Finance costs

Finance costs principally comprise the interest on intra-group arrangements and are recognised on an effective interest rate (EIR) basis.

Amounts receivable from customers

Amounts receivable from customers are initially recorded at the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by revenue and reduced by cash collections and deduction for impairment.

Impairment provisions are recognised on inception of a loan based on the probability of default (PD), exposure at default (EAD) and the loss arising on default (LGD).

On initial recognition, all accounts are recognised in IFRS 9 stage 1. When an account is deemed to have suffered a significant increase in credit risk, such as missing a payment, but they have not defaulted, they move to stage 2. When accounts default, after missing further payments or moving to a payment arrangement, they move into stage 3.

The company uses a PD/EAD/LGD model to calculate an expected loss impairment provision in accordance with IFRS 9, net of expected cash flows from future debt sale proceeds discounted at the effective interest rate of the terminated loan portfolio.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to historical customer's data and outcomes.

Lifetime losses are recognised when a significant increase in credit risk is evident from a missed monthly payment.

A customer is deemed to have defaulted when they are no longer able to sustain payments under their agreement and the agreement is terminated.

Customers are moved to IFRS 9 stage 3 on default and lifetime losses are recognised for all divisions where forbearance is provided to the customer and alternative payment arrangements are established. Customers under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows under that payment arrangement, discounted at the original EIR.

Separate macro-economic provisions are also created to reflect the expected impact of future economic events on a customer's ability to make payments on their accounts. Deterioration in both unemployment, the used car market and a full economic downturn are used to calculate separate provisions which are held in addition to the core provisions for accounts in stages 1 to 3.

Exceptional items

Exceptional items are material and non-recurring items excluded from management's assessment of profit, because by their nature could distort the company's underlying quality of earnings. These are excluded to reflect performance in a consistent manner.

Intangible assets

Intangible assets represent the costs incurred to acquire or develop computer software and bring it into use.

Computer software is amortised on a straight-line basis over its estimated useful economic life, which is estimated to be three years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)
Amortisation is charged to the income statement as part of administrative costs.

	%	Method
Computer software	33.3	Straight line
Software development costs	33.3	Straight line

Property, plant and equipment
Property, plant and equipment is shown at cost less subsequent depreciation and impairment.

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable value over their useful economic lives. The following are the principal bases used:

	%	Method
Equipment and vehicles	20-33.3	Straight line

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date.

All property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying amount of the asset and are recognised within administrative costs in the income statement.

Motor vehicles are depreciated over the estimated useful life of the asset, generally between 3 and 5 years dependent on vehicle class and expected annual mileage.

Depreciation is charged to the income statement as part of administrative costs.

Inventories
Inventories consist of vehicles brought back into stock after the termination of the conditional sale agreements with customers, valued at the expected auction proceeds net of auction costs.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand.

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

Trade and other receivables and payables
Trade and other receivables and payables are held at amortised cost and receivables are assessed for impairment.

Taxation
The tax charge represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Taxation (continued)
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Critical accounting judgements and sources of estimation uncertainty
In applying the accounting policies set out above, the company makes significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

Amounts receivable from customers
The company assesses whether there is objective evidence that amounts receivable from customers have been impaired at each balance sheet date. The principal criterion for determining whether there is objective evidence of impairment is a delinquency in contractual payments.

Amounts receivable from customers are deemed to be impaired as soon as a customer misses one monthly contractual payment. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the historical performance of customer balances falling into different arrears stages and are regularly assessed.

To the extent that the present value of estimated future cash flows differs by +/- 1%, it is estimated that the amounts receivable from customers would be approximately £4.2m (2017: £3.8m) higher/lower.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Provision for customer restitution costs

Provisions for customer restitution are established based on the following conditions being present: (i) a present obligation (legal or constructive) has arisen as a result of a past event; (ii) payment is probable (more likely than not); and (iii) the amount can be estimated reliably. Any provisions established are based on either: (i) the basis of any settlement agreed with the FCA; (ii) any future claims which may arise outside the settlement agreement reached with the FCA; and (iii) the expected costs of administering the restitution programme.

As estimation is applied to determine the quantum of such liabilities, particularly those relating to future claims volumes, including making assumptions regarding the number of future complaints that will be received and the extent to which they will be upheld, average restitution payments and related administrative costs. Past experience is used as a predictor of future expectations with management applying overlays where necessary depending on the nature and circumstances of any restitution programme.

The total amount provided for redress represents the company's best estimate of the likely future cost. However, a number of risks and uncertainties remain in particular with respect to future claim volumes outside of any settlement agreed with the FCA. The cost could differ from the company's estimates and the assumptions underpinning them and could result in a further provision being required.

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FINANCIAL AND CAPITAL RISK MANAGEMENT

The overall financial and risk management framework is the responsibility of the board with certain responsibilities in respect of internal control and risk management being delegated to various subcommittees who report directly to the board. The company also operates within a group treasury framework and is subject to group treasury policies including counterparty, liquidity, interest rate, market and capital risk.

An overview of the group's risk management framework can be found in the annual report and financial statements of Provident Financial plc.

(a) Credit risk

Credit risk is the risk that the company will suffer loss in the event of a default by a customer or a bank counterparty. A default occurs when the customer or a bank fails to honour repayments as they fall due.

(i) Amounts receivable from customers

The company's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2018 is the carrying value of amounts receivable from customers of £416.5m (2017: £379.6m).

The board is responsible for setting the credit policy of the company. The board meets quarterly, or more frequently if required, and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy.

A customer's risk profile and amount of finance provided by way of conditional sales contract is evaluated at the point of application. Historical payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific finance amount and monthly payments. The company also incorporates data from the applicant, such as income and employment, and data from external credit bureaux in assessing the customer's risk profile.

Arrears management is a combination of central letters, inbound and outbound telephony, SMS, e-mail and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing, which can involve recovery of the vehicle for which the loan was placed.

(ii) Counterparty risk

The company's maximum exposure to credit risk on bank counterparties as at 31 December 2018 was £1.7m (2017: £2.9m).

Counterparty credit risk arises as a result of cash deposits placed with banks. Counterparty credit risk is managed by the group's treasury committee and is governed by a board approved counterparty policy which ensures that the group's cash deposits and derivative financial instruments are only made with high quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the group's regulatory capital base in line with the group's regulatory reporting requirements on large exposures to the Prudential Regulation Authority (PRA).

(b) Liquidity risk

Liquidity risk is the risk that the company will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due. The company's funding is provided by a mixture of retained earnings and intra-group borrowings from Provident Financial plc.

Liquidity risk is managed by the group's centralised treasury department through daily monitoring of expected cash flows in accordance with a board-approved group funding and liquidity policy. This process is monitored regularly by the group treasury committee.

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months. As at 31 December 2018, the group's committed borrowing facilities had a weighted average period to maturity of 2.3 years (2017: 2.3 years) and the headroom on these committed facilities amounted to £327.4m (2017: £66.2m).

(b) Liquidity risk (continued)
Vanquis Bank is a PRA regulated institution and is fully funded via retail deposits. It is required to maintain a liquid assets buffer, and other liquid resources, based upon daily stress tests, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. It also maintains an operational buffer over such requirements in line with the Bank's risk appetite. As at 31 December 2018, the liquid assets buffer, including other liquid resources and the operational buffer, held by Vanquis Bank amounted to £420.6m (2017: £263.4m), comprising £384.9m (2017: £227.5m) held within cash and cash equivalents and £35.7m (2017: £35.9m) held as an investment.

Both the Group and Vanquis Bank are required to meet the liquidity coverage ratio (LCR). The LCR requires institutions to match net liquidity outflows during a 30-day period with a buffer of 'high-quality' liquid assets.

The Group and Vanquis Bank developed systems and controls to monitor and forecast the LCR and have been submitting regulatory reports on the ratio since 1 January 2014. The Group's LCR at 31 December 2018 amounted to 688% (2017: 189%). Both the Group and Vanquis Bank continue to meet the LCR requirements.

The Group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the Group's borrowings extend over a number of years. The Group's funding strategy is to maintain diversification in its funding and, as such, currently accesses three main sources of funding comprising:

(i) the syndicated revolving bank facility;
(ii) market funding, including retail bonds, institutional bonds and private placements; and
(iii) retail deposits which fully funds the ring-fenced Vanquis Bank.

The Group will continue to explore further funding options as appropriate, including but not limited to the refinancing of the syndicated revolving bank facility and further private placements and institutional bond issuance.

A maturity analysis of the undiscounted contractual cash flows of the group's bank and other borrowings, including derivative financial instruments settled on a net and gross basis, is set out in the annual report and financial statements of Provident Financial plc.

(c) Interest rate risk
Interest rate risk is the risk of a change in external interest rates which leads to an increase in the company's cost of borrowing.

The group's exposure to movements in interest rates is managed by the group treasury committee and is governed by a board-approved interest rate hedging policy which forms part of the group's treasury policies.

The group seeks to limit the net exposure to changes in sterling interest rates. This is achieved through a combination of issuing fixed-rate debt and by the use of derivative financial instruments such as interest rate swaps.

A 2% movement in the interest rate applied to borrowings during 2018 and 2017 would not have had a material impact on the group's profit before taxation or equity as the group's interest rate risk was substantially hedged. Further details of the interest rate risk management are detailed within the annual report and financial statements of Provident Financial plc.

(d) Market risk
Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities. The group's policies do not permit it or the company to undertake position taking or trading books of this type and therefore neither it or the company does so.

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(e) Capital risk

Capital risk is managed by the group's centralised treasury department. The group manages capital risk by focussing on capital efficiency and effective risk management. This takes into account the requirements of a variety of different stakeholders including shareholders, policyholders, regulators and rating agencies. A more detailed explanation of the management of capital risk can be found in the annual report and financial statements of Provident Financial plc.

(f) Brexit

The UK's EU referendum on 23 June 2016 resulted in a decision to leave the EU (Brexit). The Government has so far been unable to negotiate a withdrawal deal with the UK to the satisfaction of the UK Parliament and therefore the UK may leave the EU without a withdrawal agreement.

Brexit has led to a significant amount of instability in the UK economy and capital markets over the last 30 months, albeit unemployment levels have remained stable and there has not been any significant impact on the group's businesses to date.

Despite any potential second order risks of Brexit, the company has proven resilient during previous economic downturns due to the specialist business models deployed by the business which are tailored to serving non-standard customers. In addition, Moneybarn has tightened underwriting over the last two years in advance of a potential weakening in the UK economy.

The main risk to the company is reduced levels of funding from Provident Financial plc ('the group'). The group has current committed facilities to fund growth and contractual maturities until May 2020, when the current syndicated bank facility is due to mature, assuming ongoing access to retail deposits to fully fund Vanquis Bank. No effect is anticipated on Vanquis Bank's ability to access retail deposits, although it maintains a minimum operational buffer over its liquid requirements stipulated by the PRA to withstand any short-term disruption. In line with the group's treasury policy, the group is in discussions with its lending banks with a view to refinancing the current syndicated revolving bank facility 12 months in advance of its maturity. The group's lending banks are predominantly UK based, have supported the group for many years and have broader relationships through ancillary business such as transactional banking. In the event of a prolonged period of market disruption and the closure of debt capital markets, then the group has the ability to manage receivables growth and/or dividend flows.

The group maintains regulatory capital headroom in excess of £50m, in line with the Board's risk appetite. Despite the need to absorb the continued transitional arrangements of IFRS 9, this headroom, together with the regulatory prescribed buffers, should be sufficient to withstand a potential downturn in economic conditions caused by Brexit.

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NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	2018 £'000	2017 £'000
Interest income	117,140	94,242
Fee income	788	1,284
Total revenue	117,928	95,526

Revenue comprises interest and fee income of £131.9m (2017: £106.3m) net of the amortisation of deferred broker commissions of £14.0m (2017: £10.8m). Fee income has reduced due to the company ceasing the charging of fees to customers on missed payments during 2018.

Management regard the business as one operating segment. All revenue is from UK operations.

2 Finance costs

	2018 £'000	2017 £'000
Interest payable	24,391	19,605
Additional interest charge from ultimate parent company	9,262	-
Total finance costs	33,653	19,605

3 Profit before taxation

	2018 £'000	2017 £'000
Profit before taxation is stated after charging/(crediting):		
Amortisation of intangible assets:		
- computer software (note 6)	39	63
Profit on disposal of property, plant and equipment (note 7)	(19)	(12)
Impairment of amounts receivable from customers (note 9)	48,042	30,954

Fellow subsidiary undertakings have recharged certain administrative costs to the company of £17.8m (2017: £13.7m) in respect of services provided.

The exceptional costs for the year comprise additional interest charges on borrowings from the company's ultimate parent, Provident Financial plc, which reflect the increased funding costs incurred by Provident Financial plc following the early redemption and new issue of senior bonds.

The exceptional costs for the prior year are in relation to an FCA investigation into the company regarding its processes on affordability, forbearance and settlement options. Based on the work undertaken and the status of discussions with the FCA, the estimated cost of restitution and fine was estimated to be £20.0m of which £12.1m, comprising a gross balance reduction of £32.5m less release of impairment provisions of £20.3m, has been reflected as a reduction in receivables and £7.9m was been reflected as a provision in the 2017 year-end balance sheet.

The company has used £0.4m of the provision in 2018 in respect of legal costs. The balance reduction adjustment has also reduced by £10.3m from £12.1m to £1.8m during 2018 reflecting the write down of gross receivables based on the expected outcome of the termination options and forbearance parts of the FCA investigation. The company is working towards concluding the matter in the first half of 2019.

3 Profit before taxation (continued)

Exceptional costs	2018 £'000	2017 £'000
Release of impairment provision as part of FCA balance reduction	-	(20,319)
Estimated costs of settlement of the FCA investigation	-	40,319
Additional interest charge from ultimate parent company	9,262	-
Total exceptional costs	9,262	20,000

Auditor's remuneration to Deloitte LLP in respect of the audit of the financial statements was £156,000 (2017: £200,000). Auditor's remuneration to Deloitte LLP in respect of other services was £nil (2017: £nil).

4 Tax charge

Tax charge in the income statement	2018 £'000	2017 £'000
Current tax	(2,015)	(1,832)
Deferred tax (note 11)	(413)	(3)
Impact of change in UK tax rate (note 11)	(47)	-
Total tax charge	(2,475)	(1,835)

During 2015, changes were enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, a further change was enacted, which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2018 have been measured at 17% (2017: 17%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). In 2018, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.00% (2017: 19.25%). A tax charge in 2018 of £47,000 (2017: £nil) represents the income statement adjustment to deferred tax as a result of these changes.

The rate of tax charge on the profit before taxation for the year is lower than (2017: higher than) the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). This can be reconciled as follows:

	2018 £'000	2017 £'000
Profit before taxation	13,108	7,423
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(2,491)	(1,429)
Effects of:		
- adjustment in respect of prior years	63	(20)
- impact of change in UK tax rate	(47)	-
- non-deductible FCA fine	-	(289)
- impact of permanent differences	-	(97)
Total tax charge	(2,475)	(1,835)

The adverse impact on the tax charge of £289,000 in 2017 represents the estimate of fine to be levied by the FCA which is not tax deductible.

5 Employee information and directors' remuneration

The company has no employees. The emoluments of the directors are paid by Moneybarn Limited, a fellow subsidiary, which makes no specific recharge to the company (2017: no specific recharge) in relation to the directors. It is not possible to make an accurate apportionment of their services in relation to the company. The emoluments of these directors are disclosed in the financial statements of Moneybarn Limited.

6 Intangible assets

	Computer software	
	2018	2017
	£'000	£'000
Cost		
At 1 January	357	357
Additions	30	-
At 31 December	387	357
Accumulated amortisation		
At 1 January	299	236
Charged to the income statement	39	63
At 31 December	338	299
Net book value at 31 December	49	58
Net book value at 1 January	58	121

7 Property, plant and equipment

	2018	2017
	£'000	£'000
Cost		
At 1 January	63	92
Disposals	(36)	(29)
At 31 December	27	63
Accumulated depreciation		
At 1 January	63	92
Charged to the income statement	-	-
Disposals	(36)	(29)
At 31 December	27	63
Net book value at 31 December	-	-
Net book value at 1 January	-	-

Disposals in the year had a net book value of £nil (2017: £nil) and related proceeds of £19,000 (2017: £12,000). The profit on disposals was £19,000 (2017: £12,000).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Financial instruments

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

	31 December 2018		
	Amortised cost £'000	Non-financial assets/ liabilities £'000	Total £'000
Assets			
Cash and cash equivalents	1,710	-	1,710
Trade and other receivables	93	528	621
Amounts receivable from customers	416,493	-	416,493
Intangible assets	-	49	49
Deferred tax assets	-	7,545	7,545
Inventories	-	3,875	3,875
Total assets	418,296	11,997	430,293
Liabilities			
Trade and other payables	(429,884)	-	(429,884)
Provisions	-	(7,509)	(7,509)
Current tax liabilities	-	(1,541)	(1,541)
Total liabilities	(429,884)	(9,050)	(438,934)

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39:

	31 December 2017			
	Loans and receivables £'000	Amortised cost £'000	Non-financial assets/ liabilities £'000	Total £'000
Assets				
Cash and cash equivalents	2,908	-	-	2,908
Trade and other receivables	60	-	95	155
Amounts receivable from customers	379,647	-	-	379,647
Intangible assets	-	-	58	58
Deferred tax assets	-	-	60	60
Inventories	-	-	2,058	2,058
Total assets	382,615	-	2,271	384,886
Liabilities				
Trade and other payables	-	(356,994)	-	(356,994)
Provisions	-	-	(7,897)	(7,897)
Current tax liabilities	-	-	(1,832)	(1,832)
Total liabilities	-	(356,994)	(9,729)	(366,723)

The carrying value for all financial assets represents the maximum exposure to credit risk.

9 Amounts receivable from customers

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows discounted at the EIR. The average EIR for the year ended 31 December 2018 was 34% (2017: 29%).

Amounts from customers comprises £396.7m (2017: £364.1m) of customer receivables plus deferred broker commissions of £19.8m (2017: £15.5m) and are stated net of an estimated balance reduction of £1.8m (2017: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options (see note 3).

Ageing analysis of amounts receivable from customers	IFRS 9 2018 £'000	IAS 39 2017 £'000
Amounts due within one year	102,734	96,667
Amounts due in more than one year	313,759	282,980
Total	416,493	379,647

2018 IFRS 9	Within 1 year £'000	1-5 years £'000	Total £'000
Future minimum lease payments	206,170	464,410	670,580
Unearned finance income	(103,436)	(150,651)	(254,087)
Present value of minimum lease payments receivable	102,734	313,759	416,493

2017 IAS 39	Within 1 year £'000	1-5 years £'000	Total £'000
Future minimum lease payments	182,484	410,603	593,087
Unearned finance income	(85,817)	(127,623)	(213,440)
Present value of minimum lease payments receivable	96,667	282,980	379,647

No finance agreements entered into have a term greater than five years (2017: none over five years).The average term of finance leases entered into during the year is 4.6 years (2017: 4.7 years).

The gross receivable and allowance account which form the net amounts receivable from customers excluding deferred broker commissions of £19.8m (2017: £15.5m) is as follows:

	IFRS 9 2018 £'000	IAS 39 2017 £'000
Gross receivable	534,621	408,600
Allowance account	(137,920)	(44,478)
Net amounts receivable from customers	396,701	364,122

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Amounts receivable from customers (continued)

Amount receivable from customers (excluding deferred broker commissions) can be reconciled as follows:

				2018 IFRS 9	2017 IAS 39
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Total £'000
Gross carrying amount:	**244,733**	**95,158**	**71,914**	**411,805**	**-**
New financial assets originated	234,627	-	-	234,627	-
Net transfers and changes in credit risk	(155,692)	40,849	114,843	-	-
Write-offs	(357)	(172)	(2,658)	(3,187)	-
Recoveries	(101,306)	(42,001)	(94,718)	(238,025)	-
Revenue	61,753	32,610	37,543	131,906	-
Other changes	(1,578)	(448)	(479)	(2,505)	-
At 31 December	**282,180**	**125,996**	**126,445**	**534,621**	**408,600**
Loss allowance account:					
At 1 January (IAS 39)	**-**	**-**	**-**	**44,478**	**34,171**
Impact of IFRS 9 adoption	-	-	-	45,382	-
Reclassification	-	-	-	3,205	-
At 1 January (IFRS 9)	**8,600**	**29,700**	**54,765**	**93,065**	**-**
Movements through income statement:					
New financial assets originated	8,310	-	-	8,310	-
Net transfers and changes in credit risk	(7,336)	(1,115)	48,183	39,732	-
Other movements	-	-	-	-	30,954
Exceptional release of impairment provision (see note 3)	-	-	-	-	(20,319)
Total movements through income statement:	**974**	**(1,115)**	**48,183**	**48,042**	**10,635**
Other movements:					
Write-offs	(357)	(172)	(2,658)	(3,187)	(328)
Loss allowance account at 31 December	**9,217**	**28,413**	**100,290**	**137,920**	**44,478**
Net receivable at 31 December	**272,963**	**97,583**	**26,155**	**396,701**	**364,122**
Net receivable at 1 January	236,133	65,458	17,149	318,740	297,273

The reclassification between gross receivables and provision on adoption of IFRS 9 has no impact on net receivables.

Vehicles are held as collateral against amounts receivable from customers until they are repaid in full. At 31 December 2018, £286.3m (2017: £239.1m) of collateral is held against amounts receivable from customers of £396.7m (2017: £364.1m), representing 72% (2017: 66%) of the balance. The impact of holding the collateral on the allowance account as at 31 December 2018 was £65.1m.

The fair value of amounts receivable from customers is approximately £566.4m (31 December 2017: £394.7m). Fair value has been derived by discounting expected future cash flows at the credit adjusted discount rate.

Under IFRS 13. 'Fair value measurement', receivables are classed as level 3 as they are not traded on active market and the fair value is therefore through future cashflows.

10 Trade and other receivables

Current assets	2018 £'000	2017 £'000
Prepayments and accrued income	528	95
Other receivables including amounts due to the company for taxation and social security	93	60
Total	621	155

There are no amounts past due in respect of trade and other receivables that are not impaired.

The maximum exposure to credit risk of trade and other receivables is the carrying value of each class of receivable set out above.

There is no collateral held in respect of trade and other receivables (2017: £nil).

11 Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the mainstream UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. During 2016, a further change was enacted which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax at 31 December 2018 has been measured at 17% (2017: 17%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). The exception to this is the deferred tax asset that has arisen on the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate at which the temporary differences on which deferred tax has been recognised will reverse. In 2018, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.0% (2017: 19.25%). A tax charge in 2018 of £47,000 (2017: £nil) represents the income statement adjustment to deferred tax as a result of these changes. The movement in the deferred tax asset during the year can be analysed as follows:

Asset	2018 £'000	2017 £'000
At 1 January	60	63
Charge to the income statement (note 4)	(413)	(3)
Tax impact of IFRS 9 adoption taken to reserves	7,945	-
Impact of change in UK tax rate	(47)	-
At 31 December	7,545	60

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Deferred tax (continued)

Asset			2018
	Accelerated capital allowances	Other temporary differences	Total
	£'000	£'000	£'000
At 1 January	60	-	60
Charge to the income statement	(11)	(402)	(413)
Tax impact of IFRS 9 adoption taken to reserves	-	7,945	7,945
Impact of change in UK tax rate	1	(48)	(47)
At 31 December	50	7,495	7,545

Asset			2017
	Accelerated capital allowances	Other temporary differences	Total
	£'000	£'000	£'000
At 1 January	63	-	63
Credit to the income statement	(3)	-	(3)
At 31 December	60	-	60

The deferred tax credit of £7,945,000 (2017: £nil) represents deferred tax arising on the opening balance sheet adjustments to restate the IAS 39 balance sheet on an IFRS 9 basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate at which the temporary differences on which deferred tax has been recognised will reverse.

Deferred tax is a future tax liability or asset resulting from temporary differences or timing difference between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid, and the opening balance sheet adjustment to restate the IAS 39 balance sheet onto an IFRS 9 basis for which tax deductions are available over 10 years.

12 Trade and other payables

Current liabilities	2018 £'000	2017 £'000
Trade payables	346	881
Amounts owed to fellow subsidiary undertakings	4,496	4,672
Amounts owed to ultimate parent undertaking	423,059	349,628
Accruals	1,983	1,813
Total	429,884	356,994

The fair value of trade and other payables equates to their book value (2017: fair value equated to book value). Amounts owed to fellow subsidiary undertakings are unsecured, due for repayment in less than one year and do not accrue interest.

Amounts owed to the ultimate parent undertaking are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR. Provident Financial plc, has confirmed its continued support for the company for at least the next 12 months.

13 Provisions

Provisions	2018 £'000	2017 £'000
At 1 January	7,897	-
Created in the year	-	20,000
Utilised in the year	(388)	(12,103)
Total	7,509	7,897

The company continues to cooperate with the FCA with its ongoing investigation into affordability, forbearance and termination options. Management's best estimate of the potential liability in respect of the investigation of £20.0m was reflected in the 2017 financial statements and comprised a £12.1m balance adjustment to receivables with the remaining £7.9m reflected as a provision in respect of potential cash restitution, administration costs and an FCA fine.

The company has used £0.4m of the provision in 2018 in respect of legal costs. The company is working towards concluding the matter in the first half of 2019.

14 Share capital

	2018		2017	
	Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of £1 each	2	2	2	2
Number of shares	2	2	2	2

There are no shares issued and not fully paid at the end of the year (2017: no shares).

15 Related party transactions

Details of the transactions between the company and other group undertakings, which comprise management recharges and interest charges or credits on intra-group balances, along with any balances outstanding at 31 December are set out below:

2018	Management recharge £'000	Interest charge £'000	Outstanding balance £'000
Ultimate parent undertaking	-	33,653	(423,059)
Other subsidiaries of the ultimate parent undertaking	17,761	-	(4,496)

2017	Management recharge £'000	Interest charge £'000	Outstanding balance £'000
Ultimate parent undertaking	-	19,605	(349,628)
Other subsidiaries of the ultimate parent undertaking	13,688	-	(4,672)

The directors believe that all related party transactions are on an arm's length basis.

16 Contingent liabilities

The company is a guarantor in respect of: (i) borrowings made by the company's ultimate parent undertaking; and (ii) guarantees given by the company's ultimate parent undertaking in respect of borrowings of certain of its subsidiaries to a maximum of £958.7m (2017: £969.8m). At 31 December 2018, the borrowings amounted to £621.0m (2017: £879.5m).

17 Reconciliation of profit after taxation to cash (used in)/generated from operations

	Note	2018 £'000	2017 £'000
Profit after taxation		10,633	5,588
Adjusted for:			
- tax charge	4	2,475	1,835
- amortisation of intangible assets	6	39	63
- profit on disposal of property, plant and equipment	7	(19)	(12)
Changes in operating assets and liabilities:			
- amounts receivable from customers		(82,227)	(70,950)
- trade and other receivables		(2,978)	4,414
- inventories		(1,817)	(386)
- trade and other payables		72,890	53,746
- provisions		(388)	7,897
Cash (used in)/generated from operations		(1,392)	2,195

18 IFRS 9

IFRS 9 'Financial instruments' has been adopted by the company from the mandatory adoption date of 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'.

IFRS 9 prescribes:

- classification and measurement of financial instruments - requires asset classification and measurement based upon business model;
- hedge accounting - wider eligibility criteria to hedging of financial instruments; and
- expected loss accounting for impairment - replaces an incurred loss model.

Classification and measurement

Under IFRS 9, the classification of financial assets is determined by a contractual cash flows test referred to as the "Solely payment of principal and interest" (SPPI) business model test.

Financial assets are required to be measured at amortised cost if they are held as part of a business model where the objective is to hold the financial asset in order to collect contractual cash flows. This is known as the 'hold to collect' business model.

Financial assets are required to be measured at fair value through other comprehensive income if they are held in a business model to both collect contractual cash flows and sell the financial assets. This is known as the 'hold to collect and sell' business model.

18 IFRS 9 (continued)

Financial assets and liabilities that fail the SPPI test are required to be measured at fair value through the income statement.

There are no changes to the classification and measurement of the company's financial assets and liabilities as a result of the IFRS 9 SPPI test.

Hedge accounting

The requirements on hedge accounting are revised under IFRS 9 but adoption is optional. IAS 39 continues to be available.

The company has not entered into any hedging arrangements in the year and does not expect to do so in the course of normal business. However, the company would apply the IAS 39 hedge accounting requirements and would implement the amended IFRS 7 disclosure requirements should they enter into any hedging arrangements.

Expected loss accounting

The area within IFRS 9 which materially affects the company is expected loss accounting for impairment. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the typical loss arising on default (LGD).

Provisions under IFRS 9 are calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions.

All credit issued is recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk which is indicated by a missed payment.

The impairment approach under IFRS 9 differs from the incurred loss model under IAS 39 where impairment provisions were only reflected when there was objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This resulted in the following one-off adjustment to receivables, tax and reserves on adoption as follows:

	IAS 39 £'000	IFRS 9 adjustment £'000	IFRS 9 £'000
Receivables	364,122	(45,382)	318,740
Receivables including deferred acquisition costs	379,647	(45,382)	334,265
Deferred tax	60	7,945	8,005
Other	(361,544)	-	(361,544)
Net assets	18,163	(37,437)	(19,274)

A reconciliation from the closing IAS 39 loss allowance account to opening IFRS 9 loss allowance account is shown below:

	£'000
At 31 December 2017 – IAS 39	44,478
Stage 1 provision	9,100
Stage 2 and 3 provision	36,282
Reclassification	3,205
At 1 January 2018 – IFRS 9	93,065

The company is not restating its 2017 statutory prior year comparatives. This is due to the IFRS 9 requirement in respect of de-recognition of a financial asset which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year which will distort comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis.

19 Parent undertaking and controlling party

The immediate parent undertaking is Moneybarn Group Limited. The ultimate parent undertaking and controlling party is Provident Financial plc, which is the largest and smallest group to consolidate these financial statements. Copies of the consolidated financial statements of Provident Financial plc may be obtained from the Company Secretary, Provident Financial plc, No.1 Godwin Street, Bradford, BD1 2SU.

20 Post balance sheet events

On 22 February 2019, Non-Standard Finance plc announced the terms of a firm all share offer to acquire the entire issued share capital of the ultimate parent of the company, Provident Financial plc. Shareholders of Provident Financial plc have given irrevocable undertakings, and letters of intent, to accept the offer, which, at 5 April 2019, amount to just above 50% of Provident Financial plc's share capital. However, the transaction remains subject to a number of conditions set out in the offer.