Registered Number: 08393840

# Madison CF UK Limited

## Annual Report and Financial Statements for the year ended 31 December 2018

For Filing

Registered No: 08393840

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## Company Information

### Directors
A Chaudhry
A Hanna
M Mayhew
R Pines
P Raval
J Fox

### Company Secretary
C M Bennett

### Auditors
Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

### Bankers
Bank of America
PO Box 407
5 Canada Square
London
E14 5AQ

Royal Bank of Scotland
Waterside Court
Chatham Maritime
Kent
ME4 4RT

Barclays Bank Plc
Cambridge Chesterton Branch
Leicestershire
LE87 2BB

### Registered Office
Fusion Point
Dumballs Road
Cardiff
CF10 5BF

# Madison CF UK Limited
## Strategic Report and Financial Statements
## For the year ending 31 December 2018

The Directors present their report together with the audited financial statements of Madison CF UK Limited ("the Company") for the year ended 31 December 2018. 2018 was the fifth full year of trading for the Company.

**Review and Principal Activities**

The Company is a limited company incorporated and domiciled in England and Wales. The business trades under the name of 118 118 Money. 118 118 Money entered the consumer credit market in the UK in 2013 with the objective of providing an affordable, simple and straightforward alternative to people who may have less than perfect credit profiles by providing mid-term unsecured personal loans. The Company initially offered loans ranging from £1,000 to £5,000, with fixed repayments over 12 to 24 months with no arrangement or set-up fees. In April 2018 118 118 Money launched its consumer credit card product in the UK with credit limits ranging from £250 - £1,200 for a fixed monthly fee with no other fees, charges or interest. The directors were encouraged by the amount of new account bookings in the year, with the majority being booked in the fourth quarter, demonstrating strong momentum as the business looks to grow in 2019 and beyond.

The Company's objective in 2018 was to continue to grow the personal loan portfolio and lower its risk profile with continued emphasis on responsible lending and consumer outcomes. The Company continued to review its credit risk and affordability measures and a number of improvements were introduced during the year to ensure loans issued remained affordable and sustainable for customers.

The Company has continued to invest in new technology, automation and expanding its highly skilled work force, to ensure the future growth and profitability of the business. The Company has reported a loss for the year of £6.6m (2017:£6.7m), which was comparable with the prior year. Gross receivable balances excluding unearned income ended 2018 at £157.8m compared with £169.1m at the end of 2017 mainly driven by debt sales completed during the year offset by new financial assets originated in the year. Impairment provisions held in the balance sheet totaled £61.4m (2017: £69.9m IAS 39). The growth in new credit card customers and further relending to existing customers combined to produce the year over year growth in receivables which offset the debt sales.

**Expected loss provisioning**

The introduction of IFRS9 in 2018 brought a change from provisioning for incurred losses to provisioning for expected credit losses (ECL). The Company had made provisions against twelve months expected losses moving to lifetime expected losses if exposures have experienced a significant increase in credit risk. The Company has reported its results under IFRS 9 for the first time in 2018. IFRS 9 requires the recognition of impairment provisions on the inception of a receivable based on the probability of default and the expected loss on a receivable when it defaults. This differs to IAS 39 which required impairment provisions to be made only when there was an impairment event such as a missed payment. IFRS 9 therefore results in the earlier recognition of impairment provisions than IAS 39 and results in lower profits whilst a business is growing. Whilst the Company's results in 2018 are reported under IFRS 9, the 2017 statutory prior year comparatives have not been restated due to the IFRS 9 requirement in respect of the de-recognition of financial assets which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year. This would distort comparability with the 2018 income statement and balance sheet which is on a full IFRS 9 basis.

**Future outlook and strategy**

The future for the Company remains positive and is aligned to a stable UK economic outlook, continued demand for consumer lending and further potential opportunities for business growth, although some uncertainty exists due to the impact of the 2016 UK EU Referendum and its outcome. In 2019, the Directors are committed to increasing market share and continuing the growth in assets and returns, with a balanced focus on financial return, portfolio risk and conduct risk.

The credit card business operates in the near prime market which is a market of 10m-14m consumers in the UK with outstanding credit card balances of £6bn currently served by four main credit card issuers. 118 118 Money aims to win in this market by offering superior customer propositions, best in class customer journeys and servicing underpinned by superior analytics and underwriting. The focus for 2019 is to continue to grow our credit card portfolio by offering affordable, transparent and straightforward products to UK consumers underserved by traditional banks.

**Future outlook and strategy (continued)**

The loans business will continue to focus on deepening relationships with key distribution channels attracting low risk customers at competitive rates. Next generation credit models will facilitate more certain returns. In addition, with a growing credit card customer base there will no doubt be a segment of consumers who require a loan for larger purposes, 118118 Money are committed to being their preferred option.

**Modern slavery**

The Company is committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its business. It's Anti-Slavery and Human Trafficking Policy reflects its commitment to acting ethically and with integrity in all its business relationships.

**Ultimate Parent Company**

The Company's ultimate parent is kgb, a leading provider of branded directory assistance services in Europe and an independent provider of outsourced services in the United States. kgb is a company incorporated in Delaware, United States.

**Principal risks and uncertainties**

The financial risk management objectives and policies at the Company level, including the exposure to credit risk, interest rate risk and liquidity risk are set out in note 15 to the accompanying financial statements. The Company also actively manages key non-financial risks, mainly operational risks.

The Financial Conduct Authority ("FCA") regulation of the consumer credit industry commenced on 1 April 2014. In March 2017 the Company was granted full authorisation from the FCA (number 741774). Full details can be found on the FCA website. The Company lends to consumers but does not hold client money or custody assets. On 1 September 2017, the Company was approved to become an authorised payment institution and was reauthorized under PSD 2 on 23 May 2018.

As a regulated business, the Company places significant importance on managing its operations in a way that effectively complies 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 their application. This is supported by review mechanisms to ensure compliance with regulatory and legal obligations. The Board is responsible for ensuring compliance with laws and regulations.

**Key Performance Indicators**

The business continued to grow its portfolio in 2018 as well as lowering its risk profile through a focus on profitable channels. To monitor its growth and performance the Company used amongst others the following key performance indicators:

- Loan and card volumes
- Acquisition costs
- Collections and arrears analysis
- Customer payment metrics
- Customer experience metrics
- Complaints
- Fraud instances
- Card Utilisation
- Credit card account closure

The Company continually reviews its key performance indicators and as the business grows will evolve them to be relevant for its size and maturity.

Multiple opportunities exist to further develop the business in the personal financial services market as consumers look to move away from traditional banks to alternative businesses. There remains a risk that economic growth will falter, which may impact impairment and the level of new lending. Equally, a faltering economic growth will in all likelihood see banks further constrict their lending and drive customers into the non-standard market for their affordable borrowing needs. The Company continues to dedicate significant resources to monitor customer repayment trends and manage arrears and defaults proactively, to ensure good customer outcomes.

By Order of the Board

A Chaudhry
Director
Date 26 June 2019

## Madison CF UK Limited
### Directors' Report
### For the year ending 31 December 2018

**Directors**

The Directors of the Company, who were in office during the year and up to the date of signing the financial statements, together with their dates of appointment and resignation, where appropriate, are as shown below.

A Chaudhry
A Hanna
M Mayhew
R Pines
P Raval
J Fox (appointed 27.02.2019)
M Burgess (resigned 12.01.2018)

**Secretaries**
C M Bennett (appointed 12.12.2018)
T Waller (appointed 24.04.2018 and resigned 12.12.2018)
C Lewis (resigned 24.04.2018)

**Dividends**

No dividends were paid or proposed during the period ending 31 December 2018.

**Related party transactions**

Details of the Company's related party transactions during the period are set out in note 18 to the accompanying financial statements.

**Statement of Directors' responsibilities**

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

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial period. Under that law the Directors have prepared 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, the Directors are required to:

- select appropriate accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to disclosing and explaining any material departures in the financial statements, and
- 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.

**Statement of Directors' responsibilities (continued)**

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors' qualifying third party indemnity provision**

During the year and up to the date of signing these financial statements, the Company had in force insurance in favour of the Directors of Madison CF UK Limited against liability in respect of proceeding brought by third parties, subject to the conditions set out in the Companies Act 2006.

**Creditors' payment policy**

The Company values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses promptly. Normal policy is to pay all small business purchases within 30 days. It is the Company's practice to agree terms with suppliers when entering into contracts. The Company negotiates with suppliers on an individual basis and meets its obligations accordingly.

**Employees with disabilities**

The Company policy is that people with disabilities should have full and fair consideration for all vacancies. During the year, the Company continued to demonstrate our commitment to interviewing those people with disabilities who fulfill the minimum criteria. The Company is committed to an active equal opportunities policy from recruitment and selections, through training and development, performance reviews and promotion to retirement.

**Going Concern**

Company law requires the Directors to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. After reviewing detailed profit and cash projections, taking into account the future financing needs and making such further enquiries as they consider appropriate, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they have adopted the going concern basis in preparing the financial statements.

**Re-appointment of auditors**

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

By Order of the Board

A Chaudhry
Director
Date 26 June 2019

## Independent auditor's report to the members of Madison CF UK Limited

### Opinion

We have audited the financial statements of Madison CF UK Limited (the 'company') for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flow and the 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.
In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

### 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 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 have been prepared in accordance with applicable legal requirements.

### Matter on which we are required to report under the Companies Act 2006

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.

### Matters on which we are required to report by exception

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 for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 6 and 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.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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 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.

Grant Thornton UK LLP

David Pearson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 26 June 2019

# Madison CF UK Limited
## Statement of Comprehensive Income
## For the year ending 31 December 2018

| | Notes | 2018<br>IFRS 9<br>£'000s | 2017<br>IAS 39<br>£'000s |
|---|---|---|---|
| Interest Income | 3 | 68,255 | 56,306 |
| Interest Expense | 3 | (5,326) | (7,524) |
| Net Interest Income | | 62,929 | 48,782 |
| Impairment charge for credit losses | 14 | (29,435) | (28,181) |
| Net Income | | 33,494 | 20,601 |
| Operating expenses | 4 | (41,629) | (28,898) |
| **Loss before taxation** | | (8,135) | (8,297) |
| Tax benefit on loss | 10 | 1,559 | 1,576 |
| **Loss on ordinary activities after taxation** | | (6,576) | (6,721) |
| Other comprehensive income | | - | - |
| **Total comprehensive loss** | | (6,576) | (6,721) |

The accompanying notes from page 15 to 35 form an integral part of these financial statements

# Madison CF UK Limited
## Balance Sheet
## As at 31 December 2018

| | | 2018 | 2017 |
|---|---|---|---|
| | | IFRS 9 | IAS 39 |
| **ASSETS** | **Notes** | **£'000s** | **£'000s** |
| **Non-current assets** | | | |
| Intangible assets | 7 | 14 | 24 |
| Tangible assets | 8 | 184 | 185 |
| Deferred tax | 10 | 2,211 | 22 |
| Amounts receivable from customers | 14 | 21,936 | 42,716 |
| **Total non-current assets** | | **24,345** | **42,947** |
| **Current assets** | | | |
| Amounts receivable from customers | 14 | 74,483 | 56,478 |
| Trade and other receivables | 6 | 2,407 | 676 |
| Restricted Cash | 15 | 6,930 | 6,461 |
| Cash | 15 | 11,527 | 6,959 |
| **Total current assets** | | **95,347** | **70,574** |
| **Total assets** | | **119,692** | **113,521** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Group Borrowings | 18 | (26,301) | (28,632) |
| **Total non-current liabilities** | | **(26,301)** | **(28,632)** |
| **Current liabilities** | | | |
| Trade and other payables | 9 | (7,580) | (4,029) |
| Borrowings current | 12 | (59,182) | (51,476) |
| Amounts owed to group undertakings | 18 | (20,725) | (17,383) |
| **Total current liabilities** | | **(87,487)** | **(72,888)** |
| **Total Liabilities** | | **(113,788)** | **(101,520)** |
| **Net assets** | | **5,904** | **12,001** |
| **Shareholders' Equity** | | | |
| Share capital | 11 | - | - |
| Capital contribution | 18 | 76,000 | 64,000 |
| Accumulated losses | | (70,096) | (51,999) |
| **Total shareholders' equity** | | **5,904** | **12,001** |

The accompanying notes from page 15 to 35 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on 26 June 2019.

Director
A Chaudhry

# Madison CF UK Limited
## Statement of Changes in Equity
## For the year ending 31 December 2018

| | Capital contribution £'000 | Share capital £'000 | Accumulated losses £'000 | Total equity £'000 |
|---|---|---|---|---|
| Balance at 1 January 2017 | - | - | (45,278) | (45,278) |
| Total comprehensive loss for the year | - | - | (6,721) | (6,721) |
| Capital contribution | 64,000 | - | - | 64,000 |
| **Balance at 31 December 2017** | **64,000** | **-** | **(51,999)** | **12,001** |
| Impact of adoption of IFRS 9 'Financial Instruments' | - | - | (11,521) | (11,521) |
| **At 1 January 2018** | **64,000** | **-** | **(63,520)** | **480** |
| Total comprehensive loss for the year | - | - | (6,576) | (6,576) |
| Capital contribution | 12,000 | - | - | 12,000 |
| **Balance at 31 December 2018** | **76,000** | **-** | **(70,096)** | **5,904** |

The accompanying notes from page 15 to 35 form an integral part of these financial statements.

# Madison CF UK Limited
## Statement of Cash Flow
## For the year ending 31 December 2018

| Continuing operations | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net (Loss) | | (6,576) | (6,721) |
| Amortisation of intangibles | 7 | 10 | 17 |
| Amortisation of tangibles | 8 | 105 | 103 |
| Net (increase)/decrease in deferred income tax | 10 | (2,189) | 10 |
| Impact of adoption of IFRS 9 'Financial Instruments' deferred tax | 17 | 2,359 | - |
| Interest expense | | 5,326 | 7,524 |
| Amortisation and addition of deferred financing fees | 13 | 6 | 270 |
| Net (increase)/decrease in trade and other receivables | 6 | (1,731) | 464 |
| Net decrease/(increase) in amounts receivable from customers | 14 | 11,325 | (31,189) |
| Net (decrease)/increase in loss reserve provision | 14 | (22,430) | 6,610 |
| Net increase/(decrease) in trade and other payables | 9 | 3,551 | (51) |
| **Net cash used in operating activities** | | **(10,244)** | **(22,963)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | 7 | - | (18) |
| Purchase of tangible assets | 8 | (104) | - |
| **Net cash used in investing activities** | | **(104)** | **(18)** |
| | | | |
| **Cash Flows from financing activities** | | | |
| Group borrowings | 18 | 7,723 | 2,533 |
| Recharge of centrally allocated costs | 18 | 3,342 | 6,353 |
| Borrowings | 13 | 7,700 | 10,000 |
| Interest paid | | (3,380) | (2,533) |
| **Net cash generated from financing activities** | | **15,385** | **16,353** |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | 5,037 | (6,628) |
| Cash and cash equivalents at beginning of year | | 13,420 | 20,048 |
| **Cash and cash equivalents at 31 December** | | **18,457** | **13,420** |
| | | | |
| **Cash and cash equivalents comprise** | | | |
| Cash at bank | | 11,527 | 6,959 |
| Restricted cash | | 6,930 | 6,461 |
| **Cash and cash equivalents at 31 December** | | **18,457** | **13,420** |

The accompanying notes from page 15 to 35 form an integral part of these financial statements.

### 1. Reporting entity

These financial statements are prepared for Madison CF UK Limited ("the Company"), which provides unsecured personal loans and credit cards in the consumer finance market and trades as 118 118 Money. Madison CF Luxembourg SARL, a company registered in Luxembourg, is the immediate parent company. Madison CF Luxembourg SARL is a wholly owned subsidiary of Madison CF Holdings Inc, which is a wholly owned subsidiary of kgb. kgb is the ultimate parent company.

In March 2017 the Company was granted full authorisation from the Financial Conduct Authority (FCA) (number 741774). Full details can be found on the FCA website. The Company lends to consumers but does not hold client money or custody assets. On 1 September 2017, the Company was approved to become an authorised payment institution. On the 23 October 2017, the Company was granted permissions to offer credit information services. The Company safeguards funds in line with regulation 23 of the Payment Services Regulations 2017

The Company is a private limited company, incorporated and domiciled in the United Kingdom. The address of the registered office of the Company is Fusion Point, Dumballs Road, Cardiff, CF10 5BF.

Madison CF UK Limited is the parent of Madison C.C Limited and is also a subsidiary included in the consolidated financial statements of its ultimate controlling party, kgb, a company incorporated in the United States of America. The Company has not prepared consolidated financial statements under IFRS 10 because Madison C.C. Limited was dormant in 2018.

### 2. Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), adopted for use in the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 as applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for the use of fair values as required by certain standards.

### 3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied. The figures included within these financial statements have been rounded to the nearest thousand pounds.

**Going concern**
Company law requires the Directors to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. After reviewing the Company's performance projections and future funding model, the Directors are satisfied that the Company has adequate resources to enable it to meet its obligations and to continue with its growth strategy. The Directors have approved the budgets for 2019 and have regular meetings to discuss the Company's performance. The UK and European senior finance facility will continue to provide long term support to the Company. The Directors believe the Company's cash flows and funding facilities will be sufficient to meet the Company's obligations and that it is appropriate to prepare the financial statements on a going concern basis.

**Critical accounting estimates**
The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting estimates. It also requires Directors to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements such as the assessment of impairment on loans and advances.

### 3. Summary of significant accounting policies (continued)

**Critical accounting estimates (continued)**
The level of impairment provision in 2017 was calculated using IAS 39 methodology that takes historical payment performance and objective evidence of the current and future expected performance of the portfolio. This was regularly reviewed to ensure the level of impairment provision is adequate and reflective of latest information and collections strategies. 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'

**(a) Foreign currency translation**
The financial statements are presented in Pounds Sterling, the Company's functional and presentational currency.

**(b) Interest income and expense**
For loans and advances, interest income consists of amounts earned on loans and receivables once approved and paid out to the customers. Interest income and expense are recognised using the effective interest method. The effective interest rate is the rate that exactly discounts the expected future cash receipts or payments through the expected life of the financial instrument. The application of the method has the effect of recognising interest such that the yield earned or incurred is constant over the period to maturity or repayment. For credit card customers, interest income consists of a monthly fixed subscription fee which is recognised once an account cycles and becomes due for payment.

Interest ceases to be recognised at the earlier of when collection of an account becomes doubtful or the account becomes 90 days past due. Previously recognised interest income that was accrued but not collected from the borrower is evaluated as part of the overall receivable in determining the adequacy of the allowance for losses. Credit card subscription fee revenue is recognised monthly until a customer's account is charged off or closed.

**(c) Current and deferred income tax**
Income tax payable on taxable profits (current tax) is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits, and where the losses have not been surrendered for group relief within the group.

Deferred income taxes are recorded, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts. In the financial statements, deferred income tax is determined using tax rates and legislation enacted or substantially enacted at the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to release the asset and settle the liability simultaneously. A valuation allowance for deferred tax asset is established when management determines that it is more likely than not that all or a portion of the benefit of the deferred tax asset will not be realised.

**(d) Cash**
For the purposes of the statement of cash flow and the balance sheet, cash comprises cash in hand and current balances with banks. Restricted cash consisted of bank deposits with externally specified terms and conditions for the cash to become current. As an authorized payment institution cash is also safeguarded in accordance with the Payment Services Regulations 2017.

**(e) Amounts receivable from customers, current and non-current**
Loans and advances represent amounts due from customers resulting from financing provided by the Company and are non-derivative, financial assets with fixed or determinable payments that are not quoted in an active market and are not classified as available for sale. Loans and advances represent the principal amounts due from customers issued in the ordinary course of business.

### 3. Summary of significant accounting policies (continued)

#### (e) Amounts receivable from customers, current and non-current (continued)

Loans and advances are measured on initial recognition at fair value and subsequently at amortized cost using the effective interest method, less provision for impairment. Loans and advances are reported as current for amounts due in 12 months or less and non-current for amounts due in greater than 12 months.

Credit card receivables represent amounts due from customers resulting from funding provided by the Company for cardholder purchases and cash advance transactions and are non-derivative, financial assets with no fixed or determinable payments but require a monthly minimum payment and are not quoted in an active market and are not classified as available for sale. Credit card receivables are all reflected as current.

#### (f) Impairment of financial assets

Customer receivables are initially recorded at the amount advanced. The impairment uses the credit limit available to the customer on the credit card receivables. Subsequently, receivables are increased by revenue and reduced by cash collections and deduction for impairment. IFRS 9 has changed the basis of loss calculation to expected loss (i.e. forward-looking), as opposed to the incurred loss model under IAS 39, which focused only on losses that had already occurred. There are a number of changes as well as judgements involved in measuring expected credit losses. Impairment provisions are recognised on inception of a receivable based on the probability of default (PD) 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, they move to stage 2. When accounts default, after missing further payments or moving to a payment arrangement, they move into stage 3.

At each balance sheet date each financial asset is measured at amortised cost. The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Loss allowances are forward-looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses. Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12 month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

Under IFRS 9, the Company uses a 12 month Probability of Default (PD) model and the Loss Given Default (LGD) model. The PD model is a logistic regression model that consists of independent variables that are deemed appropriate to predict the likelihood of an account defaulting in the next year. The LGD model predicts the proportion of the exposure at default (EAD) that will be lost, conditional on a loss occurring. The selection of LGD parameters is largely informed by expert judgement, with data analysis performed to support the decisions taken. The contractual cash flows represent solely recovery of principal outstanding and/or fees which compensate the lender for the time value of money, for the credit risk associated with the principal amount outstanding, and for other lending based risks and costs associated with the arrangement, as well as a profit margin. There are no contractual features which would introduce risk or volatility inconsistent with a basic lending arrangement. Therefore, management consider the contractual cash flows of both products to be consistent with features of a basic lending arrangement.

The Company reviews its portfolio of receivables for impairment at each balance sheet date. For the purpose of assessing the impairment of customer receivables, customer are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The Company makes assumptions to determine whether there is objective evidence that credit risk has increased significantly which indicates that there has been an adverse effect on expected future cash flows.

**3. Summary of significant accounting policies (continued)**

**(f) Impairment of financial assets (continued)**

The level of impairment in each of the Company's businesses is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage and are regularly reviewed to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment, product mix and recent customer payment performance.

In the prior year under IAS 39, the Company assessed whether objective evidence of impairment existed individually for the loans and advances that were individually significant or collectively for loans and advances that were not individually significant. Amounts receivable from customers that were individually assessed for impairment and for which an impairment loss was recognised were not included in a collective assessment of impairment. The factors that the Company took into account include significant financial difficulties of the debtor, credit scores, a breach of contract or default in payments, or the granting by the Company of a concession to the debtor because of the deterioration in the debtor's financial condition.

For the purposes of a collective evaluation of impairment, amounts due from customers were grouped on the basis of similar risk characteristics, taking into account past-due status and other relevant factors. These characteristics were relevant to the estimation of future cash flows for groups of such assets, by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of amounts due from customers that were collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics, stratified by delinquency ranges. Historical loss experience was adjusted based on observable data to reflect the effects of current conditions and to remove the effects of conditions in the historical period that did not exist. The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**(g) Derecognition of financial assets**

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for de-recognition. A transfer requires that the Company transfers the contractual rights to receive the asset's cash flows. After a transfer, the Company assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. The asset remains on the balance sheet if substantially all the risks and rewards have been retained. It is derecognised if substantially all the risks and rewards have been transferred.

Receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments after 180 days and failure to engage with the Company on alternative payment arrangements amongst others is considered indicators of no reasonable expectation of recovery.

Receivables are charged off when management deems the amount uncollectable and is generally 180 days past due. The gross carrying amount of a financial asset shall directly reduce when the entity has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. A write-off constitutes a de-recognition event. The Company de-recognises a receivable when:

- The debtor is sold and the Company does not have any contractual rights to the cash flows
- The debtor is deceased and their estate has been settled

When this occurs, all receivable balances held on the balance sheet are written off to the income statement and any unpaid interest income is reversed.

### 3. Summary of significant accounting policies (continued)

#### (h) Intangible assets

Intangible assets represent capitalised software that is being amortised over its economic useful life, 3 years on a straight line basis. Computer software is stated at cost, less amortisation and provisions for impairment if required. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Company, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred.

#### (i) Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Cost represents expenditure that is directly attributable to the purchase of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the item can be measured reliably. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Depreciation on assets is calculated using the straight line method to allocate the costs less their residual values over their estimated useful lives as follows

- Leasehold improvements - 2 - 5 years
- Fixtures and fittings - 5 years
- Computer equipment - 3 years

#### (j) Impairment of intangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, the Company considers whether indicators of impairment of long-lived assets and intangibles assets, held for use are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amount, and if so, the Company recognises an impairment loss based on the excess of the carrying amount of the assets over their fair value.

Assets that have previously suffered impairment are reviewed for possible reversal of the impairment at each reporting date. A previously recognised impairment loss may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the related asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised although this was not applicable in the year.

#### (k) Financial assets and liabilities

The Company recognises financial instruments from the execution date, and continues to recognise assets until the cash is received, the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership. In the case of liabilities, the Company continues to recognise them until the liability has been settled, extinguished or has expired.

Financial assets and liabilities are generally measured at amortised cost, using a methodology that approximates the effective interest rate method. Financial assets and liabilities which are considered financial derivative instruments are required to be accounted for at fair value. The change in fair value of financial derivative instruments is recorded as current period income/ (loss).

### 3. Summary of significant accounting policies (continued)

**(l) Share capital**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Directors. No Dividends have been paid or approved.

**(m) Employee benefits and pension commitments**

Expenses related to employee benefits are recognised in the Statement of Comprehensive Income in staff costs or recharge of centrally allocated costs by the Parent and are included in operating expenses. The Company offers a Group Self Invested Personal Pension Plan, in addition to the automatic enrolment scheme with The People's Pension. Contributions to individual employees' pension plans under the Company's pension arrangements are charged in the Statement of Comprehensive Income as they become payable in accordance with the rules of the arrangement. Any contributions unpaid at the balance sheet date are included within trade and other payables.

**(n) Short term employee benefits**

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided service in the year. Bonuses are recognised to the extent that the Company has a present obligation to its employees that can be measured reliably.

**(o) Future accounting developments**

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 standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of use asset and a corresponding liability are recognised for all leases by lessees, except for short term assets and leases of low value assets. The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows will be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as operating and financing cash flows respectively.

A number of revised and new accounting standards and interpretations have been issued but are not yet effective and have therefore not been adopted in these accounts, currently being considered by the Financial Reporting Advisory Board (FRAB).
Standards which are not considered to have a future material impact are:-

- IFRS 15 Revenue from Contracts with Customers – IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.
- IFRS 4 Insurance Contracts adapted for IFRS 9
- IFRS 2 Share based payment
- IAS 7 Statement of Cash Flows
- IAS 12 Income Taxes
- IAS 40 Investment Property Transfers of Investment Property
- IFRS 12 Disclosure of interests in other entities
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

## 4 Operating expense

Operating expenses include the following:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Administration, Operating and Systems Cost | 41,434 | 28,730 |
| Amortisation of intangibles | 10 | 17 |
| Amortisation of tangibles | 105 | 103 |
| Auditors' remuneration | 80 | 48 |
| **Total** | **41,629** | **28,898** |

No remuneration was paid to Grant Thornton UK LLP in the year that related to non-audit services (2017 £nil)

## 5 Employees and key management including Directors

a) Staff costs comprise the following:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Wages and salaries | 6,382 | 4,022 |
| Social security costs | 702 | 420 |
| Other staff costs | 106 | 88 |
| Pension costs – defined contribution pension plans | 288 | 156 |
| **Total** | **7,478** | **4,686** |

The average monthly number of employees, including the directors, during the year was as follows:

| | 2018 Number | 2017 Number |
|---|---|---|
| Administration | 135 | 116 |

b) Remuneration of key management personnel, including Directors included in staff costs were as follows.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Aggregate emoluments | 1,576 | 947 |
| Aggregate contributions to a defined contribution pension scheme | 103 | 55 |
| **Total** | **1,679** | **1,002** |

c) Disclosures of Directors' remuneration as required by the Companies Act 2006 were as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Aggregate emoluments | 733 | 514 |
| Aggregate contributions to a defined contribution pension scheme | 33 | 24 |
| **Total** | **766** | **538** |

Two Directors were remunerated by kgb and their services were deemed negligible. Four UK Directors were remunerated as above.

## 5 Employees and key management including Directors (continued)

d) The number of Directors who have retirement benefits accruing under pension schemes is

| | 2018 Number | 2017 Number |
|---|---|---|
| Under defined contribution schemes | 2 | 2 |

e) The emoluments of the highest paid Director were

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Aggregate emoluments | 409 | 232 |

## 6 Trade and other receivables

Other receivables comprise of the following:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Prepayments | 2,407 | 676 |
| **Total** | **2,407** | **676** |

## 7 Intangible assets

An analysis of intangible assets is as follows:

| | Software £'000 |
|---|---|
| **Cost** | |
| **At 1 January 2017** | **533** |
| Additions | 27 |
| **At 31 December 2017** | **560** |
| Additions | - |
| **At 31 December 2018** | **560** |
| | |
| **Amortisation** | |
| **At 1 January 2017** | **(519)** |
| Charge for the year | (17) |
| **At 31 December 2017** | **(536)** |
| Charge for the year | (10) |
| **At 31 December 2018** | **(546)** |
| | |
| **Net book value** | |
| **At 31 December 2018** | **14** |
| **At 31 December 2017** | **24** |

The intangible asset addition in 2017 was an enhancement of the 118 118 Money website.

## 8 Tangible assets

An analysis of tangible assets is as follows:

| | Fixtures and Fittings | Leasehold Improvements | Computer Equipment | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | |
| **At 1 January 2018** | **57** | **1** | **426** | **484** |
| Additions | 82 | 4 | 18 | 104 |
| **At 31 December 2018** | **139** | **5** | **444** | **588** |
| | | | | |
| **Amortisation** | | | | |
| **At 1 January 2018** | **(51)** | **-** | **(248)** | **(299)** |
| Charge for the year | (26) | (1) | (78) | (105) |
| **At 31 December 2018** | **(77)** | **(1)** | **(326)** | **(404)** |
| | | | | |
| **Net book value** | | | | |
| **At 31 December 2018** | **62** | **4** | **118** | **184** |
| **At 31 December 2017** | 6 | 1 | 178 | 185 |

## 9 Trade and other payables

An analysis of trade and other payables is as follows:

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Accrued expenses | 4,325 | 1,505 |
| Other creditors | 3,040 | 2,342 |
| Accrued interest on borrowings | 215 | 182 |
| **Total** | **7,580** | **4,029** |

## 10 Taxation

### (a) Income tax expense

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Deferred tax | 170 | 10 |
| Current year | (1,729) | (1,586) |
| **Total income tax credit** | **(1,559)** | **(1,576)** |

The table below shows the reconciliation between the total income tax charge and the tax credit that would result from applying the standard UK corporation tax rate of 19.00% (2017:19.25%) to the Company's loss before tax.

## 10 Taxation (continued)

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Loss before tax | (8,135) | (8,297) |
| | | |
| Tax credit at average UK corporate tax rate of 19.00% (2017:19.25%) | (1,545) | (1,597) |
| Payment for group relief | (1,734) | (1,586) |
| Prior year adjustment | 6 | 21 |
| IFRS 9 adoption | (264) | - |
| Change in rate | 244 | - |
| Group relief losses surrendered | 1,734 | 1,586 |
| **Total tax charge for the year** | **(1,559)** | **(1,576)** |
| **Effective tax rate%** | **19.16%** | **19.00%** |

Legislative changes made during the year and earlier by the Chancellor of the Exchequer to corporate tax rates will have an effect on the future tax charge of the Company. Accordingly, deferred tax has been calculated at year-end using a tax rate of 17% reflecting the expected corporate tax rate in effect when the timing differences are realized.

### (b) Current tax liability

The current tax liability is as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **UK Corporation tax payable** | - | - |

### (c) Deferred tax

The components of and movement on the deferred income tax account during the period are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Fixed assets temporary allowances | 24 | 19 |
| Bonus provisions | 55 | - |
| IFRS 9 Opening impairment | 2,123 | |
| Dilapidations provisions | 2 | - |
| Pension contributions | 7 | 3 |
| **Net deferred tax asset** | **2,211** | **22** |
| Falling due in one year | - | - |
| **Falling due after one year** | **2,211** | **22** |

Deferred income taxes are provided in full on temporary differences under the liability method using a principal tax rate of 17%.

## 11 Share capital

Share capital is comprised of 1 authorised, ordinary share (£1 per share fully paid) at 31 December 2018, which was issued 7th February 2013.

### 12 Borrowings

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Borrowings non-current | - | - |
| Borrowings current | (59,182) | (51,476) |
| **Total** | **(59,182)** | **(51,476)** |

The Company has a revolving senior credit facility with a group of lenders, secured by all the assets of the Company. The facility is charged at a fixed rate plus LIBOR. In March 2018 the facility was amended, amongst other things, to allow an increase in the total credit facility to £65m and extending the maturity date to December 2019. In January 2019 the facility secured a further £5m commitment bringing the total credit facility to £70m. As at 31st December 2018, the amount drawn was £59.7m. The balance above is shown net of unamortised issue costs of £418,000 (2017:£524,000) and is being amortised over the remaining life of the revolving credit facility. In addition, the Company secured an 18 month revolving credit facility in November 2018 for credit card receivables. This new facility for £10m remained undrawn at the year end. The balance above is shown net of unamortised issue costs of £100,000 (2017:£0) and is being amortised over the remaining life of the revolving credit facility.

### 13 Reconciliation of Liabilities arising from financing activities

| **2018** | **Long Term Borrowings £'000** | **Short Term Borrowings £'000** | **Total £'000** |
|---|---|---|---|
| **1 January 2018** | **-** | **(51,476)** | **(51,476)** |
| **Cash-flows:** | | | |
| - Repayment | - | 2,830 | 2,830 |
| - Proceeds | - | (10,530) | (10,530) |
| **Non-Cash:** | | | |
| - Addition of financing costs | - | 1,157 | 1,157 |
| - Amortisation of deferred financing costs | - | (1,163) | (1,163) |
| **31 December 2018** | **-** | **(59,182)** | **(59,182)** |

| **2017** | **Long Term Borrowings £'000** | **Short Term Borrowings £'000** | **Total £'000** |
|---|---|---|---|
| **1 January 2017** | **(41,206)** | **-** | **(41,206)** |
| **Cash-flows:** | | | |
| - Proceeds | (10,000) | - | (10,000) |
| **Non-Cash:** | | | |
| - Reclassification | 51,476 | (51,476) | - |
| - Amortisation of deferred financing costs | (270) | - | (270) |
| **31 December 2017** | **-** | **(51,476)** | **(51,476)** |

**14 Amounts receivable from customers**

IFRS 9: 'Financial Instruments' was adopted from 1 January 2018. Under IFRS 9, all receivables are recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Stage 3 represents a customer in default.

Interest is recognised on the gross receivable in stage 1 and 2 and on the net receivable in stage 3.

Impairment provisions are recognised on inception of a receivable based on the probability of default (PD) and the typical loss arising on default (LGD). More details can be found in note 17.

An analysis of amounts receivable from customers as follows:

| **2018**<br>**IFRS 9** | **Non-Current**<br>**£'000** | **Current**<br>**£'000** | **Total**<br>**£'000** |
|---|---|---|---|
| Gross balances | 43,431 | 114,338 | 157,769 |
| Impairment allowance | (21,495) | (39,855) | (61,350) |
| **Total** | **21,936** | **74,483** | **96,419** |

| **2017**<br>**IAS 39** | **Non-Current**<br>**£'000** | **Current**<br>**£'000** | **Total**<br>**£'000** |
|---|---|---|---|
| Gross balances | 62,040 | 107,054 | 169,094 |
| Impairment allowance | (19,324) | (50,576) | (69,900) |
| **Total** | **42,716** | **56,478** | **99,194** |

Amounts receivable from customers in 2018 includes the credit card and loans receivables.

The following table presents the changes in the impairment allowance for the year ended 31 December 2018.

| | **£'000** |
|---|---|
| **At 1 January 2017** | **41,719** |
| Additions | 29,362 |
| Amounts written off | (1,181) |
| **At 31 December 2017** | **69,900** |
| Impact of adoption of IFRS 9 'Financial Instruments' | 13,880 |
| Additions | 29,435 |
| Amounts written off | (804) |
| Recoveries | (51,061) |
| **At 31 December 2018** | **61,350** |

**Impairment of receivables is recognised in three stages:**

Stage 1 – When credit is available and is first originated, or has shown no signs of credit deterioration, the Company holds a provision to cover the next 12 months of expected credit loss. The expected loss is based on a 12-month probability of default, using historic experience, and revenue is recognised on the gross receivable before any impairment provision.

Stage 2 – Receivable that have experienced a Significant Increase in Credit Risk (SICR), for which provision is held covering expected credit losses over the lifetime of the receivable.

Stage 3 – Receivables where the borrower has defaulted, or are considered credit-impaired, must also have impairment recognised over the lifetime of the receivable.

### 14 Amounts receivable from customers (continued)

| **2018** | **Stage 1** | **Stage 2** | **Stage 3** | **2018** |
|---|---|---|---|---|
| **Gross Carrying amount** | **£'000s** | **£'000s** | **£'000s** | **£'000s** |
| **At 1 January 2018** | **74,929** | **16,840** | **77,325** | **169,094** |
| New Financial assets originated | 136,379 | 14,383 | 17,217 | 167,979 |
| Net transfers and changes in credit risk | (10,543) | (765) | 11,308 | - |
| Write Offs | (45) | 25 | (918) | (938) |
| Recoveries | (160,964) | (20,895) | (64,309) | (246,168) |
| Revenue | 55,672 | 6,577 | 5,553 | 67,802 |
| **At 31 December 2018** | **95,428** | **16,165** | **46,176** | **157,769** |

| | **Stage 1** | **Stage 2** | **Stage 3** | |
|---|---|---|---|---|
| **Allowance account** | **£'000s** | **£'000s** | **£'000s** | **£'000s** |
| **At 1 January 2018 (IAS 39)** | | | | **69,900** |
| Impact of IFRS 9 adoption | | | | 13,880 |
| **At 1 January 2018 (IFRS 9)** | **9,997** | **9,564** | **64,219** | **83,780** |
| Movements through income statement: | | | | |
| New customer receivables and net transfers and changes in credit risk | 2,903 | 453 | 34,844 | 38,200 |
| Other movements | - | - | (8,765) | (8,765) |
| **Total movements through income statement** | **2,903** | **453** | **26,079** | **29,435** |
| Other movements: | | | | |
| Write offs | (30) | (11) | (763) | (804) |
| Amounts recovered | (1,471) | (405) | (49,185) | (51,061) |
| **Allowance at 31 December 2018** | **11,399** | **9,601** | **40,350** | **61,350** |

### 15 Financial Risks

The Company's activities expose it to a variety of financial risks. These are primarily credit risk, interest rate risk and liquidity risk. Consequently, the Company devotes resources to maintaining effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they are effective and continue to meet the needs of the business. The Company's Directors follow the requirements of the risk management policies, which include specific guidelines on the management of interest rate and credit risks and advice on the use of financial instruments to manage them. The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

#### a) Credit risk

Credit risk is the risk that counterparties to the Company's financial assets may default. The Company assesses all counterparties, including its customers, for credit risk before contracting with them. The Company's counterparty exposure is subject to financial limits. There are no significant concentrations of credit risk to individual counterparties. Credit risk has been built into the models and loss given default rates that feed the expected credit losses. The expected credit loss of the portfolios is calculated at a monthly level and regularly reviewed. The Company measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

## 15 Financial Risks (continued)

### Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk at 31 December 2018.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Cash | 11,527 | 6,959 |
| Restricted cash | 6,930 | 6,461 |
| Amounts receivable from customers | 96,419 | 99,194 |
| Trade and other receivables | 2,407 | 676 |
| **Total maximum exposure at 31 December** | **117,283** | **113,290** |

The Company does not hold any collateral as security.

### Financial assets subject to credit risk

For the purpose of the Company's disclosures regarding credit quality, financial assets subject to credit risk have been analysed as follows.

| IFRS 9 2018 | Cash and cash equivalents £'000 | Amounts receivable from customers £'000 | Trade and other receivables £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets not past due | 18,457 | 95,428 | 2,407 | 116,291 |
| Past due | - | 62,341 | - | 62,342 |
| **Total** | **18,457** | **157,769** | **2,407** | **178,633** |
| Impairment provision against receivables | - | (61,350) | - | (61,350) |
| **Total carrying amount** | **18,457** | **96,419** | **2,407** | **117,283** |

| IAS 39 2017 | Cash and cash equivalents £'000 | Amounts receivable from customers £'000 | Trade and other receivables £'000 | Total £'000 |
|---|---|---|---|---|
| Neither past due nor individually impaired | 13,420 | 77,655 | 676 | 91,751 |
| Past Due but not individually impaired | - | 35,915 | - | 35,915 |
| Impairment provision against active book | - | (19,324) | - | (19,324) |
| **Total** | **13,420** | **94,246** | **676** | **108,342** |
| Inactive book past due | - | 55,524 | - | 55,524 |
| Impairment provision against inactive book | - | (50,576) | - | (50,576) |
| **Total** | **-** | **4,948** | **-** | **4,948** |
| **Total carrying amount** | **13,420** | **99,194** | **676** | **113,290** |

### (i) Financial assets subject to credit risk neither past due nor individually impaired

The amounts receivables from customers are primarily due from individual customers. The Company believes there is high likelihood that the asset will be recovered in full and the credit quality remains satisfactory since the assets are neither past due nor individually impaired which would indicate serious financial difficulty for the borrower.

### 15 Financial Risks (continued)

#### (ii) Financial assets subject to credit risk past due but not individually impaired

The age analysis of financial assets that are subject to credit risk and past due but not individually impaired, which consist solely of amounts receivable due from customers is as follows:

| IAS 39 | 2017<br>£'000 |
|---|---|
| Past due but not more than 1 month | 16,685 |
| Over 1 month but not more than 2 months | 6,372 |
| Over 2 months but not more than 3 months | 4,379 |
| Over 3 months but not more than 6 months | 5,402 |
| Past due 6 months and over | 3,077 |
| Total | **35,915** |

Impairment is assessed collectively for financial assets past due but not individually impaired. The Company acknowledges that the risk arising from changes in credit quality and the recoverability of receivables is inherent to the nature of its business.

#### b) Liquidity risk

Liquidity risk is the risk that the Company's cash and committed facilities may be insufficient to meet its debts as they fall due. Liquidity risk is managed by the Company's treasury department through daily monitoring of expected cash flows. The Company maintains adequate headroom in its committed borrowing facilities to fund the growth of the business for at least the following 12 months. The Company has also reviewed detailed profit and cash projections taking into account the future financing needs and the Directors are satisfied that the Company has adequate liquidity projections to continue in operational existence.

**Contractual maturity of financial liabilities on an undiscounted basis**

The table below presents the financial liabilities payable by the Company, by remaining contractual maturities, at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flow of all financial liabilities.

| Current | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Trade and other payables | (7,580) | (4,029) |
| Amounts owed to group undertakings | (47,026) | (46,015) |
| **Total** | **(54,606)** | **(50,044)** |

#### c) Interest rate risk

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates. Interest rate risk is the Company's only significant market risk.

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

All of the Company's loans and advances are fixed rate instruments. The Company had interest bearing borrowings in 2018 and given the stable economic environment and low base rates, this risk is currently low.

**15 Financial Risks (continued)**

**Interest rate sensitivity analysis**

The sensitivity of the income statement is the effect of assumed changes in interest rates on the net interest income and expense for one year, based on the interest earning financial assets and interest bearing financial liabilities held at 31 December 2018. At 31 December 2018 the Company had minimal exposure to movements in interest rates as the remaining interest rate risk was offset by the Company's cash deposits. If the interest rates had been 0.5% higher or lower and all other variables were held constant, the Company's loss before taxation for the year ended 31 December 2018 and reserves would decrease or increase, respectively, by £0.28m (2017:£0.23m).

**16 Fair values of financial instruments**

The fair value of a financial instrument is the amount that an asset could be exchanged, or a liability settled, in an arms-length transaction between knowledgeable, willing parties. The Directors consider that there is no material difference between the carrying value and fair value of the financial assets and financial liabilities.
The 2018 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. The 2017 table sets out the carrying value of the Company's financial assets and liabilities with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS are shown within non-financial assets/liabilities:

| **2018 IFRS 9 Assets** | **Amounts receivable from customers £'000** | **Amortised Cost £'000** | **Non- financial assets/liabilities £'000** | **Total £'000** |
|---|---|---|---|---|
| Intangible assets | - | - | 14 | 14 |
| Tangible assets | - | - | 184 | 184 |
| Deferred tax asset | - | - | 2,211 | 2,211 |
| Amounts receivable from customers | 96,419 | - | - | 96,419 |
| Trade and other receivables | - | 2,407 | - | 2,407 |
| Cash and cash equivalents | - | 18,457 | - | 18,457 |
| **Total assets** | **96,419** | **20,864** | **2,409** | **119,692** |
| **Liabilities** | | | | |
| Group and other borrowings | - | (106,208) | - | (106,208) |
| Trade and other payables | - | - | (7,580) | (7,580) |
| **Total liabilities** | **-** | **(106,208)** | **(7,580)** | **(113,788)** |

| **2017 IAS 39 Assets** | **Amounts receivable from customers £'000** | **Amortised Cost £'000** | **Non- financial assets/liabilities £'000** | **Total £'000** |
|---|---|---|---|---|
| Intangible assets | - | - | 24 | 24 |
| Tangible assets | - | - | 185 | 185 |
| Deferred tax asset | - | - | 22 | 22 |
| Amounts receivable from customers | 99,194 | - | - | 99,194 |
| Trade and other receivables | - | 676 | - | 676 |
| Cash and cash equivalents | - | 13,420 | - | 13,420 |
| **Total assets** | **99,194** | **14,096** | **231** | **113,521** |
| **Liabilities** | | | | |
| Group and other borrowings | - | (97,491) | - | (97,491) |
| Trade and other payables | - | - | (4,029) | (4,029) |
| **Total liabilities** | **-** | **(97,491)** | **(4,029)** | **(101,520)** |

## 17 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.

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.

**Classification of debt instruments**

In order to assess the classification of debt instruments, two tests are performed - to assess the intent of holding the instruments and assess the contractual characteristics of the instruments. As a result of the assessment performed by The Company, the loans and credit card portfolio was classified as being measured at amortised cost as it follows the SPPI (solely payments of principal and interest) test below:

A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The contractual cash flows represent solely recovery of principal outstanding and/or fees which compensate the lender for the time value of money, for the credit risk associated with the principal amount outstanding, and for other basic lending risks and costs associated with the arrangement, as well as a profit margin. There are no contractual features which would introduce risk or volatility inconsistent with a basic lending arrangement. The card debt product charges a fixed monthly fee, based on credit limits, management consider the contractual cash flows of the product to be consistent with features of a basic lending arrangement.

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 receivable based on the probability of default (PD) and the typical loss arising on default:

**Significant increase in credit risk**

Provisions under IFRS 9 are calculated based on an unbiased probability-weighted outcome which take into account historic performance. 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 either through a missed payment or an adverse change in behavioural score. Given the materiality of the portfolio, additional qualitative criteria were used to identify significant increase in credit risk as follows:

- Arrears: any arrears at the reporting date
- Worst Status in the Last 3 Months: any arrears within the past 3 months

**Write off**

Receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments after 180 days and failure to engage with the Company on alternative payment arrangements amongst others are considered indicators of no reasonable expectation of recovery.

**17 IFRS 9 (continued)**

**Forward looking assessments**

Management view the key macroeconomic driver of impairment performance to be the level of unemployment in the UK economy. The business has not yet been through enough economic cycles to enable historic data to be analysed in order to map drivers to the specific customers on book. However, management has significant experience in the near-prime consumer lending market and views UK unemployment to be the most appropriate measure. Managements experience is that there is no observable change in default rates unless unemployment rates move by 10% quarter on quarter, beyond this a scaling of 0.8% has been deemed appropriate.

Management do not currently believe that the current economic outlook will have an impact on the business default rates over the life of the book.

The impairment approach under IFRS 9 differs from the incurred loss model under IAS 39 which focused only on losses that had already occurred. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This has resulted in the following one-off adjustment to receivables on adoption as follows:

| Current and non-current financial assets | Original IAS 29 Category | New IFRS 9 Category | Closing Balance 31 December 2017 (IAS 39) £'000 | Adoption of IFRS 9 £'000 | Opening Balance 1 January 2018 (IFRS 9) £'000 |
|---|---|---|---|---|---|
| Loans | Amortised Cost | Amortised Cost | 99,194 | (13,880) | 85,314 |
| **Total Receivables** | | | **99,194** | **(13,880)** | **85,314** |
| Trade and Other Receivables | Amortised Cost | Amortised Cost | 676 | - | 676 |
| Deferred tax assets | Non-financial asset | Non-financial asset | 22 | 2,359 | 2,381 |
| Cash and Cash equivalents | Amortised Cost | Amortised Cost | 13,420 | - | 13,420 |
| **Total financial asset balances** | | | **113,312** | **(11,521)** | **101,791** |

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

**Prior year comparatives**

The Company has not restated 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.

## 18 Related party transactions

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

The definition of related parties includes parent company and ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its Directors. Transactions during the period and the balances outstanding at the year-end between related parties are as follows:

Non-current

| 2018 Balances outstanding | Balance 1 January £'000 | Interest Payable £'000 | Increase in Funding £'000 | Settlements during the period £'000 | Balance at 31 December £'000 |
|---|---|---|---|---|---|
| **Funding** | | | | | |
| The Number UK Ltd ( Fellow Subsidiary) | (27,020) | (1,928) | (9,353) | 12,000 | (26,301) |
| 118 Ltd (Fellow Subsidiary) | (1,612) | (18) | - | 1,630 | - |
| **Total Funding** | **(28,632)** | **(1,946)** | **(9,353)** | **13,630** | **(26,301)** |

| 2017 Balances outstanding | Balance 1 January £'000 | Interest Payable £'000 | Increase in Funding £'000 | Settlements during the period £'000 | Balance at 31 December £'000 |
|---|---|---|---|---|---|
| **Funding** | | | | | |
| The Number UK Ltd ( Fellow Subsidiary) | (81,767) | (4,970) | (4,283) | 64,000 | (27,020) |
| 118 Ltd (Fellow Subsidiary) | (1,591) | (21) | - | - | (1,612) |
| **Total Funding** | **(83,358)** | **(4,991)** | **(4,283)** | **64,000** | **(28,632)** |

Current

| 2018 Recharges of expenses payable | Balance at 1 January £'000 | Recharge of centrally allocated costs £'000 | Cash settlements during the period £'000 | Balance at 31 December £'000 |
|---|---|---|---|---|
| kgb (Ultimate Parent) | (8,390) | (4,814) | - | (13,204) |
| kgb USA Inc (Fellow Subsidiary) | (608) | (155) | - | (763) |
| Le Numero s.a.s (Fellow Subsidiary) | (256) | 59 | - | (197) |
| kgb Philippines Inc (Fellow Subsidiary) | (2,868) | (1,347) | 4,257 | 42 |
| 118 Ltd (Fellow Subsidiary) | (1,823) | (385) | - | (2,208) |
| Conduit Enterprises Ltd ( Fellow Subsidiary) | (81) | 1 | - | (80) |
| Madison CF Holdings, Inc (Parent) | (162) | (34) | - | (196) |
| The Number UK Ltd (Fellow Subsidiary) | (3,195) | (2,674) | 1,750 | (4,119) |
| **Total** | **(17,383)** | **(9,349)** | **6,007** | **(20,725)** |

| 2017 Recharges of expenses payable | Balance at 1 January £'000 | Recharge of centrally allocated costs £'000 | Cash settlements during the period £'000 | Balance at 31 December £'000 |
|---|---|---|---|---|
| kgb (Ultimate Parent) | (6,191) | (2,199) | - | (8,390) |
| kgb USA Inc (Fellow Subsidiary) | (504) | (104) | - | (608) |
| Le Numero s.a.s (Fellow Subsidiary) | (200) | (56) | - | (256) |
| kgb Philippines Inc (Fellow Subsidiary) | (2,023) | (845) | - | (2,868) |
| 118 Ltd (Fellow Subsidiary) | (1,433) | (390) | - | (1,823) |
| Conduit Enterprises Ltd (Fellow Subsidiary) | (65) | (16) | - | (81) |
| Madison CF Holdings, Inc (Intermediate Parent) | (110) | (52) | - | (162) |
| The Number UK Ltd (Fellow Subsidiary) | (2,254) | (2,691) | 1,750 | (3,195) |
| **Total** | **(12,780)** | **(6,353)** | **1,750** | **(17,383)** |

### 18 Related party transactions (continued)

Recharges of centrally allocated costs include central support costs provided by fellow group companies. The loan from The Number UK Ltd to Madison CF UK Ltd has a term of five years with a GBP LIBOR rate plus 6%. During the year, The Number UK intercompany loan was split into two separate loan notes, one for £12m and the second for a value of up to £49m. The loan note for £12m (2017:£64m) was distributed up the group in the form of an intercompany dividend. The rights to receive this intercompany loan note was then contributed down to Madison CF Luxembourg, the direct parent company of Madison CF UK Ltd. Following receipt of the £12m (2017:£64m) intercompany note, Madison CF Luxembourg cancelled the note in return for increasing its investment in Madison CF UK Ltd by way of a capital contribution of £12m (2017:£64m). A further credit line from The Number UK Ltd to Madison CF UK Ltd was granted in November 2018 for £25m to further fund the growth of the business in 2019.

### 19 Capital management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern
- To maintain an optimal capital structure in order to reduce the cost of capital
- To generate sufficient capital to support asset growth

The Board of Directors is responsible for capital management and has approved minimum control requirements for capital and liquidity risk management. The Company is currently funding its capital through external funding and internal support.

### 20 Commitments

Other Company commitments are as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Contracted services at 31 December | 10,231 | 9,608 |
| Unutilised credit card facilities at 31 December | 2,509 | - |
| **Total** | **12,740** | **9,608** |

### 21 Principal subsidiary

| Name | Country of Incorporation | Class of Shares | Holding | Principal Activity |
|---|---|---|---|---|
| Madison C.C. Limited | United Kingdom | Ordinary | 100% | SPV |

Madison CF UK Limited is the parent of Madison C.C. Limited and is also a subsidiary included in the consolidated financial statements of its ultimate controlling party, kgb, a company incorporated in the United States of America. The Company is therefore exempt from the requirement to prepare consolidated financial statements at the year-end due to the subsidiary being dormant.

### 22 Parent and ultimate holding company

Madison CF Luxembourg SARL, a company registered in Luxembourg, is the immediate parent company.

The ultimate holding company and controlling party and the parent company of the largest group that presents group financial statements is kgb, a company incorporated in the United States of America. This is the smallest and largest group for which group financial statements are prepared. The consolidated financial statements of this group are available from 750 Lexington Avenue, 9th Floor, New York, NY 10022, USA.

### 23 Subsequent Events

In January 2019 the revolving senior credit facility was increased by £5m of the total credit facility, full details are included in note 12.

In June 2019 the Company secured further amendments to the senior credit facility agreement, extending the termination date to December 2021 and increasing the total commitments under the facility agreement to an aggregate amount equal to £110m plus a further £20m accordion.