PNC Financial Services UK Ltd.

Annual Report and Financial Statements

For the year ended 31 December 2019

Company Registration Number 07341483

PNC Financial Services UK Ltd.
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DIRECTORS

William A. Kosis
James B. Yahner
Paul Beveridge

COMPANY SECRETARY

Hackwood Secretaries Limited
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EC2Y 8HQ
United Kingdom

REGISTERED OFFICE

PNC House
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United Kingdom
RH16 3DN

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
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United Kingdom

BANKERS

Barclays Bank PLC
1 Churchill Place
London
E14 5HP
United Kingdom

The directors present their annual report and the audited financial statements for PNC Financial Services UK Ltd. ("the Company") for the year ended 31 December 2019.

Results, dividends and share capital

Profit for the financial year before tax amounted to £26,709,073 (2018: £15,512,186) which resulted in a profit after tax of £21,638,309 (2018: £10,322,006).

During the year, no dividend was paid (2018: £nil) or proposed (2018: £nil).

For discussion of future developments and financial risk management, refer to the Strategic Report on page 7.

Directors and their interests

The directors, who held office during the year and up until the date of these financial statements, and their appointment date, were as follows:

	Appointment Date
William A. Kosis	2 September 2010
James B. Yahner	2 September 2010
Paul Beveridge	15 November 2010

None of the directors had any interests, as defined by the Companies Act 2006, in the shares of the Company during the year or up to the date of signing the Directors' Report.

The Company is a wholly owned subsidiary of PNC Financial Services Holding Luxembourg S.a.r.l., a body incorporated outside of Great Britain.

Post balance sheet events

No events of note impacting the results shown in the financial statements have taken place since the end of the year. However, on 11 March 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic and recommended worldwide containment and mitigation measures. The COVID-19 outbreak and public health response to contain it have resulted in recessionary economic and financial market conditions as of the date of the publication of these financial statements that did not exist at 31 December 2019. A quantitative estimate of the financial impacts is not feasible at this time.

Policy and practice on payment of creditors

It is the Company's policy in respect of all suppliers to agree to payment terms in advance of the supply of goods and to adhere to those payment terms.

Donations

Donations to UK charities amounted to £7,472 for the year ended 31 December 2019, and £8,293 for the year ended 31 December 2018. No donations in either year were made for political purposes.

Statement of directors' responsibility for the financial statements

The following statement, which should be read in conjunction with the independent auditors' report on pages 9 and 10, is made with the view to distinguishing for shareholders the responsibilities of the directors from those of the auditors in relation to the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report, Strategic 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 prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The directors have reviewed the Company's funding arrangements and assessed the level of financial support from its parent. On the basis of their assessment of the Company's financial position and performance, and the continued availability of parental support, the Company's directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors and disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The Company's incumbent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are deemed reappointed in the next financial year under section 487(2) of the Companies Act 2006.

On behalf of the Board

The Directors' Report was approved by the Board of Directors on 11 September 2020 and signed on its behalf by:

Paul Beveridge
Director
11 September 2020

Principal activities, review of the business and future developments

The Company was incorporated on 10 August 2010 under the name The PNC Financial Services UK Ltd. On 10 September 2010, the name was changed to PNC Financial Services UK Ltd.

The principal activity of the Company is that of providing asset-based loan facilities to middle market companies, predominantly in the UK. Since operations began in November 2010, the portfolio has grown within management's expectations. External market conditions continue to be attractive for asset-based lenders from a long-term point of view and we continue to expect favourable growth in the future. We continue to invest in the Company for future expansion. The directors expect to operate the Company in 2020 within the constraints of the current financial climate.

The Company has adjusted to the conditions of the COVID-19 pandemic and operations have been effective during the lockdown period with a significant portion of staff working from home. The Company has managed its core functions effectively, providing continued funding to clients whilst ensuring that there is an appropriate ongoing focus on risk management. The Company is currently assessing client requests for additional support on a case-by-case basis, ensuring that they are availing of the various UK Government support schemes in place, and then if further liquidity is required, will seek to work alongside stakeholders to assist in supporting their investments.

General business review

The performance of the Company in 2019 was largely in line with expectations of the directors. The loan portfolio grew 7% from last year with an increase in revenue of 6% (due to interest income driven primarily by this loan growth). Additionally, profit after tax increased by £11,316,303 or 110% versus last year.

The net asset position of the Company at the end of the financial year was £804,462,594, up 187% from the prior year end, which was primarily due to a £502,553,900 capital infusion from its parent company in addition to profit after tax for the year. This capital infusion was the result of converting non-current borrowings and associated accrued interest to equity as a result of recently enacted Luxembourg tax law changes.

Principal risks and uncertainties

We are subject to a number of risks potentially impacting our business, financial condition, results of operations, and cash flows. As an asset-based lending company, certain elements of risk are inherent in our transactions and are present in the business decisions we make. Thus, we encounter risk as part of the normal course of our business, and we design risk management processes to help manage these risks. Uncertainties exist in economic conditions, market environment and foreign exchange.

The biggest risk factor is whether customers are able to repay their debts when due. The Company's experience in deal structuring, underwriting and back office monitoring capabilities continues to ensure that the potential impacts of these risks are kept to a minimum. Principal risks and uncertainties to the business, financial risk management policies and procedures in place are outlined in Note 3 to the financial statements.

The Company is monitoring the effects of the United Kingdom's decision following the June 2016 referendum to exit the European Union, and the impact to the Company is uncertain at this time.

Since the balance sheet date, there has been a global pandemic from the outbreak of COVID-19, which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the directors are currently unable to estimate its financial and other potential effects on the business.

Key performance indicators (KPIs)

Given the straightforward nature of the business and the information provided elsewhere in this report, the directors are of the opinion that the production of KPIs in the Strategic Report is not necessary for an understanding of the development, performance or position of the business.

Directors' Duties

The directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the Companies Act 2006. The following paragraphs summarise how the directors fulfil their duties.

Risk Management
Risk is an inherent part of business activity, and we operate an integrated risk management framework centred around the embedding of a strong risk culture, which ensures tools are in place to identify and manage threats. The principal risks and uncertainties to the business and financial risk management policies and procedures in place are outlined in Note 3 to the financial statements.

Employees
The Company is committed to being a responsible business, communicating on a regular basis with employees to offer a greater understanding of the Board's role and direction of the Company and building a healthy culture in line with PNC's core values.

Business Relationships
We develop and maintain strong client relationships, which are at the heart of everything we do. All levels of management have regular meetings with clients to enhance relationships and understand their views.

Community and Environment
The Company's approach is to use our position of strength to create positive change for the local community and charities seeking to support local community projects wherever possible and to help them prosper economically and build social cohesion.

Business Conduct
We have a strong, open and transparent relationship with our ultimate parent company and suppliers. We report and liaise with our ultimate parent regularly to ensure that the business is aligned to the evolving framework of the group. We are reliant on suppliers for a number of key services and work closely with them which, as well as being important for future success is, we believe the right way to do things. Priorities are to work closely to share expertise, effectively manage risk and ensure that we achieve the best value for customers in terms of price and quality.

On behalf of the Board

The Strategic Report was approved by the Board of Directors on 11 September 2020 and signed on its behalf by:

Paul Beveridge
Director
11 September 2020

Report on the audit of the financial statements

Opinion

In our opinion, PNC Financial Services UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows 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, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement and statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

William Elliott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 September 2020

PNC Financial Services UK Ltd.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
31 December 2019

	Note	Year Ended 31 December 2019	Year Ended 31 December 2018
		£	£
Revenue	5	53,998,044	51,044,341
Total Income		**53,998,044**	**51,044,341**
Administrative Expenses	6	(10,874,014)	(11,261,768)
Impairment Release / (Expense)	3	5,955,351	(4,306,208)
Operating Profit		**49,079,381**	**35,476,365**
Finance Income	9	661,668	469,019
Finance Expense	9	(23,031,976)	(20,433,198)
Profit before Tax		**26,709,073**	**15,512,186**
Tax Expense	10	(5,070,764)	(5,190,180)
Profit after Tax		**21,638,309**	**10,322,006**

There is no other comprehensive income for the years presented.

The profit of the Company for the years presented is derived from continuing operations. The notes on pages 15 to 38 form an integral part of these financial statements.

PNC Financial Services UK Ltd.
STATEMENT OF FINANCIAL POSITION
31 December 2019

ASSETS	Note	As at 31 December 2019 £	As at 31 December 2018 £
Non-Current Assets			
Deferred Tax Assets	10	1,115,135	2,167,188
Property, Plant and Equipment	11	644,041	776,291
Right-of-Use Assets	18	1,766,211	-
Loans and Advances, net of Allowance	14	1,141,499,280	1,065,227,467
Current Assets			
Derivative Financial Instruments	13	538,599	634,188
Current Tax Assets	10	812,337	-
Receivables and Prepaids	14	112,664	187,924
Cash and Cash Equivalents	12	172,252,070	210,137,440
Total Assets		**1,318,740,337**	**1,279,130,498**
LIABILITIES			
Non-Current Liabilities			
Lease Liabilities	18	1,533,411	-
Borrowings	19	-	489,626,000
Current Liabilities			
Current Tax Liabilities	10	-	3,082,291
Trade and Other Payables	15	7,736,665	32,648,411
Lease Liabilities	18	245,731	-
Borrowings	19	504,761,936	473,503,411
Total Liabilities		**514,277,743**	**998,860,113**
EQUITY			
Share Capital	16	7,555,539	2,529,999
Share Premium	16	747,998,361	250,470,001
Retained Earnings		48,908,694	27,270,385
Total Equity		**804,462,594**	**280,270,385**
Total Equity and Liabilities		**1,318,740,337**	**1,279,130,498**

The notes on pages 15 to 38 form an integral part of the financial statements.

The financial statements on pages 11 to 38 were approved by the Board of Directors on 11 September 2020 and signed on its behalf by:

Paul Beveridge
Director
PNC Financial Services UK Ltd.
Registered number 07341483
11 September 2020

PNC Financial Services UK Ltd.
STATEMENT OF CHANGES IN EQUITY
31 December 2019

	Share Capital £	Share Premium £	Retained Earnings £	Total Equity £
Balance at 31 December 2017	2,529,999	250,470,001	22,626,554	275,626,554
Cumulative effect of IFRS 9 adoption	-	-	(5,678,175)	(5,678,175)
Balance at 1 January 2018	2,529,999	250,470,001	16,948,379	269,948,379
Profit for the year, being total comprehensive income	-	-	10,322,006	10,322,006
Balance at 31 December 2018	**2,529,999**	**250,470,001**	**27,270,385**	**280,270,385**
Profit for the year, being total comprehensive income	-	-	21,638,309	21,638,309
Total contributions by owners of the company, recognised directly in equity	5,025,540	497,528,360	-	502,553,900
Balance at 31 December 2019	**7,555,539**	**747,998,361**	**48,908,694**	**804,462,594**

The notes on pages 15 to 38 form an integral part of the financial statements.

PNC Financial Services UK Ltd.

STATEMENT OF CASH FLOWS

31 December 2019

	Year Ended 31 December 2019	Year Ended 31 December 2018
Operating activities:	£	£
Profit before tax	26,709,073	15,512,186
Adjustments for:		
Depreciation and impairment	(5,572,867)	4,438,459
Finance income	(274,404)	(191,499)
Finance expense	23,031,976	20,433,198
Interest income	(41,557,895)	(38,383,598)
Net foreign exchange gain	(387,264)	(277,520)
Operating profit before working capital changes	**1,948,619**	**1,531,226**
Decrease / (increase) in other assets	4,903,940	(2,174,531)
(Decrease) / increase in trade and other payables	(11,028,878)	17,481,947
Net change in working capital	**(6,124,938)**	**15,307,416**
Loans and advances changes	(78,291,630)	(17,250,502)
Interest received on loans and advances	40,438,710	38,383,598
Interest paid	(35,378,007)	(18,669,856)
Income taxes paid	(7,913,339)	(4,229,525)
Net cash (used in) / provided by operating activities	**(85,320,585)**	**15,072,357**
Investing activities:		
Interest income on deposits with banks	274,404	191,499
Net cash provided by investing activities	**274,404**	**191,499**
Financing activities:		
Borrowing on line of credit	211,579,732	228,447,530
Repayment of line of credit	(175,862,349)	(225,202,194)
Repayment of long term borrowings	(489,626,000)	-
Issuance of equity	502,553,900	-
Principal paid on lease liabilities	237,304	-
Interest paid on lease liabilities	44,996	-
Net cash provided by financing activities	**48,927,583**	**3,245,336**
Net (Decrease) / Increase in Cash and Cash Equivalents	**(36,118,598)**	**18,509,192**
Cash and Cash Equivalents at Beginning of Year	210,137,440	190,693,893
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1,766,772)	934,355
Cash and Cash Equivalents at End of Year	**172,252,070**	**210,137,440**

The notes on pages 15 to 38 form an integral part of the financial statements.

For further discussion on currency revaluation, see Note 3(a).

1 Basis of preparation and accounting policies

The Company's financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee ("IFRS IC") interpretations endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied, other than IFRS 16, which was adopted by the Company on 1 January 2019.

The financial statements are prepared under the historical cost convention modified to include the fair valuation of financial instruments to the extent required or permitted under IFRSs as set out in the relevant accounting policies. IFRSs require the use of accounting estimates and also require management to exercise its judgement in the process of applying the Company's accounting policies.

The Company is a private limited company incorporated and domiciled in the UK. The address of its registered office is PNC House, 34/36 Perrymount Road, Haywards Heath, West Sussex, United Kingdom, RH16 3DN. The Company's parent is PNC Financial Services Holding Luxembourg S.a.r.l. incorporated in Luxembourg. The parent of PNC Financial Services Holding Luxembourg S.a.r.l. is PNC Bank International, which is a subsidiary of PNC Bank, National Association whose ultimate parent is The PNC Financial Services Group Inc. incorporated in the United States. See Note 19 and Note 20.

Accounting standards adopted during the year

IFRS 16, *Leases*, was adopted by the Company on 1 January 2019 under the modified retrospective approach and recognised right-of-use (ROU) assets and lease liabilities in the amount of £2,016,445. The amount of lease liabilities recognised at adoption was £279,453 less than the future lease commitment cash flows disclosed in the 2018 Annual Report and in Note 18 as a result of discounting at the Company's incremental borrowing rate. This standard was issued by the IASB on 13 January 2016 and introduces a single lessee accounting model which requires a lessee to recognise a right-of-use asset, representing its right to use the underlying leased asset, along with a corresponding liability, representing its obligation to make lease payments. This new accounting model applies to all leases with a term of more than 12 months, unless the underlying asset is of low value. Measurement of these assets and liabilities is initially on a present value basis; however, it includes non-cancellable lease payments (including inflation-linked payments) and payments made in optional periods, if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23, *Uncertainty over Income Tax Treatments*, was adopted by the Company on 1 January 2019 and it did not materially impact the financial results of the Company. This standard was issued on 7 June 2017 and clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below.

(a) Revenue recognition

Interest

Interest income is recognised on all interest bearing financial assets classified and measured at amortised cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets — assets that are credit-impaired at initial recognition — the Company calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
(b) Financial assets that are not POCI but have subsequently become credit-impaired (or 'stage 3'), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised as the service is provided. Fees and commissions not integral to effective interest are recognised on completion of the underlying service and fulfillment of performance obligations.

(b) 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, calculated using the tax rates enacted or substantially enacted by the reporting date. 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.

Deferred income tax is provided in full, using the liability method, on temporary 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, by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

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 realise the asset and settle the liability simultaneously and with the same taxing authority.

(c) Financial assets and liabilities

Recognition and de-recognition

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

Classification and subsequent measurement

Financial assets
From January 1, 2018, the Company has applied IFRS 9, with the classification of financial assets dependant upon the Company's business model for managing the asset and the cash flow characteristics of the asset.

Financial assets that are held to collect contractual cash flows, and the contractual cash flows represent solely payments of principal and interest, are classified and measured at amortised cost. The Company's financial assets classified and measured at amortised cost are loans and advances, cash and cash equivalents and receivables and prepaids.

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest are classified and measured at fair value through other comprehensive income. The Company currently has no financial assets classified and measured at fair value through other comprehensive income.

Financial assets are classified and measured at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are optionally and irrevocably designated at fair value through profit or loss. The Company classifies and measures derivative financial instruments as fair value through profit and loss.

Financial liabilities
Financial liabilities are classified and measured at amortised cost unless they are held for trading (including all derivatives) or has been optionally and irrevocably designated at fair value through profit or loss.

The Company's borrowings are classified and measured at amortised cost.

Amortised cost

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. Interest income is recognised using the effective interest method (see Note 2 (a)).

Write-off policy

Loans and advances are written off when it is determined that a specific loan and advance, or portion thereof, is uncollectible. This determination is based on the specific facts and circumstances of the individual loans and advances. In making this determination, factors considered include the viability of the business or project as a going concern, the past due status when the asset is not well-secured, the expected cash flows to repay the loan and advance, the value of the collateral and the ability and willingness of any guarantors to perform.

Impairment of financial assets

IFRS 9 requires on initial recognition that an allowance is established for Expected Credit Losses (ECLs) resulting from default events that are expected on a probability weighted basis within the next 12 months. Where a significant increase in credit risk since initial recognition is identified, an allowance equal to full lifetime ECLs is recognised. Financial assets where 12-month ECL is recognised are in stage 1, financial assets that are considered to have experienced a significant increase in credit risk are in stage 2, and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in stage 3.

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Purchased or originated credit-impaired financial assets (POCI) are treated differently, as set out in the POCI section below.

Significant Increase in Credit Risk (Stage 2)
Stage 1 financial assets are unimpaired and are without significant increase in credit risk since initial origination. After origination, a financial asset's credit default risk may increase significantly. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Company may determine that a financial asset which is not derecognised at modification and is not a troubled debt restructuring has a significant increase in credit risk.

A significant increase in credit risk is determined to have occurred when a borrower's probability of default (PD) has approximately doubled since origination (as determined by a debtor's internal risk rating). Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due or if a financial asset is included on a watchlist, and are included in stage 2. A significant increase in credit risk may also be determined to have occurred if a loan has not been derecognised at modification.

Credit Impaired (Stage 3)
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets, including loans and advances, is in default or impaired (i.e., in stage 3). The factors that the Company takes into account include significant financial difficulties of the debtor or the issuer, a breach of contract or default in payments, the granting by the Company of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, in the disappearance of an active market for a security because of the issuer's financial difficulties, or as a backstop if the debtor is 90 days past due.

Troubled Debt Restructurings (TDRs)
Loans are identified as TDRs and classified as credit impaired when the Company modifies the contractual payment terms due to significant credit distress of the borrower. TDRs remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of TDRs until maturity or derecognition.

A TDR is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the TDR is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as TDRs.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of TDRs, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over a minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or stage 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Purchased or originated credit-impaired financial assets (POCI)
Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a TDR where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI asset is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages
Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

ECL Measurement
Under IFRS 9, the assessment of credit risk and the estimation of ECL are unbiased and probability-weighted and incorporate all available information that is relevant to the assessment including information about past events, borrower characteristics, current conditions and management's judgements surrounding reasonable and supportable forecasts of future events and economic conditions made at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL, 12-month or lifetime ECL depending on loan staging, is the maximum contractual period over which the Company is exposed to credit risk. If credit risk is believed to extend beyond contractual maturity, stage 2, stage 3, and POCI financial assets may have credit risk measured beyond contractual maturity. Further description of the Company's ECL measurement methodology are included in Note 3(b).

Derivative financial instruments

The Company's derivative financial instruments relate to forward currency contracts. These are recognised at fair value in the Statement of Financial Position as either assets (with a positive fair value) or liabilities (with a negative fair value), with changes in fair value included in either finance income or finance expense in the Income Statement and Statement of Comprehensive Income.

Commitments and Contingent Liabilities

In the normal course of business, the Company enters into commitments, which are designed to meet the credit requirements of its customers. Such commitments include guarantees, which represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations. Contingent liabilities and commitments are disclosed where there are possible obligations whose existence will be confirmed by one or more uncertain future events outside the control of the Company, or where transfer of resources to settle a present obligation is not probable or cannot be reliably measured.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of cash at bank and term deposits with less than three months maturity at inception that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

(e) Finance income and expenses

Finance income and expenses are comprised of interest earned on cash deposited with financial counterparties and interest paid on borrowings, which reflect the agreed market-based or contractual rate for each transaction undertaken during the period.

(f) Foreign currency revaluation

The Company's functional currency is pounds sterling (£). It transacts in foreign currencies other than the Company's functional currency. Net foreign currency gains or losses within a period are reflected in finance income or finance expense, respectively.

(g) Property, plant and equipment

Property, plant and equipment are included in the financial statements at cost less accumulated depreciation and any provision for impairment.

Computers and software, other hardware and furniture are stated at cost and depreciated on a straight line basis over the estimated useful economic lives of the assets, which are 4-5 years.

Leasehold improvements are stated at cost and depreciated on a straight line basis to residual value over the shorter of the period of the lease or the useful economic life of the assets, which are 15 years.

(h) Leases

Leases are accounted for in accordance with IFRS 16, *Leases.* IFRS 16 supersedes IAS 17, *Leases*, and IFRIC 4, *Determining whether an arrangement contains a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

IFRS 16, *Leases*, was adopted by the Company on 1 January 2019 under the modified retrospective approach and as a result, the Company recognised ROU assets and lease liabilities in the amount of £2,016,445. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company as the lessee

Right-of-use assets
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make future lease payments and ROU assets representing the right to use the underlying assets.

The Company recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The ROU assets are subject to testing for impairment, if there is an indicator of impairment.

Lease liabilities
At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The Company elected to use the Overnight Indexed Swap rate corresponding to the term of the lease at the lease measurement date as our incremental borrowing rate to measure the ROU asset and lease liability. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

3 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's risk management programme seeks to minimise potential adverse effects on its financial performance whilst fulfilling its regulatory obligations.

a) Market risk

(i) Foreign exchange risk

The Company hedges its material foreign exchange risk exposure through forward contracts as well as natural hedging by borrowing in currencies as exposures become material. The notional principal amounts of the outstanding forward contracts at 31 December 2019 were €84,000,000 and $32,000,000. The fair market value of the outstanding forward contracts at 31 December 2019 was represented as a derivative asset on the balance sheet in the amount of £538,599. The maturity date of the outstanding forward contracts is 31 March 2020.

Expenses and assets purchased are generally purchased in Sterling, the company's reporting currency. The Company is exposed to exchange rate movements on trading transactions in seven other foreign currencies, which have no significant impact on the pre-tax results for the year.

(ii) Cash flow and fair value interest rate risk

To the extent that the assets, liabilities and financial instruments of the Company mature or re-price at different points in time, the Company is exposed to interest rate risk. Deposits with other financial institutions, loans and borrowings are exposed to interest rate cash flow risk. Other assets and other liabilities are not exposed to interest rate risk. Company policy is to maintain borrowings in variable rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk, which is offset by cash held and loans and advances priced at variable rates. The Company is not exposed to significant price risk. The Company's borrowings at a variable rate were primarily denominated in Sterling.

b) Credit risk

Credit risk is the risk that the Company's counterparties will be unable to meet their obligations to the Company either in part or in full and arises from credit exposures to customers as well as on placement of cash and cash equivalents and derivative financial instruments with banks and financial institutions. Credit risk is controlled through policies developed both at the group level (refer to Note 20: Ultimate parent company) and by the Company. The Company has an internal risk rating system under which all loans and advances are graded on a single scale. Loans and advances below a certain grade are deemed to be on a managed watchlist. These loans and advances are monitored closely and are subject to more stringent oversight.

The Company manages the overall exposure in its portfolio carefully against collateral over which it holds legal security. Collateral may include any one or a combination of Account Receivables, Inventory, Real Estate Property and Machinery & Equipment. The Company applies suitable collateral based on expected realisation in recovery scenarios using a combination of both internally and externally resourced examinations and appraisals of collateral at initial due diligence and ongoing through the client relationships in order to continually monitor and manage reserves and advance rates. In the event of a recovery required due to a deteriorating credit, the Company would most likely engage external licensed insolvency professionals, asset appraisal and disposal specialists where appropriate and seek to recover by either re-finance, sale of client business and/or assets or insolvency process. The Company's policies regarding collateral has not significantly changed during the reporting period.

The Company assesses the credit quality of its customers, taking into account their financial position and considering past experience and other factors. There is no concentration of credit risk with respect to loans and advances as the Company has a large number of customers and, generally, a low historic incidence of customer defaults. Given this, and the recurring nature of the billing and collection arrangements, management assesses the credit quality of the Company's customers, who are neither past due nor impaired, as high. Where customers are determined to have a higher risk of default, the level of over-collateralisation is such that the credit quality remains high.

The Company's ECL methodology includes quantitative estimation frameworks and qualitative judgemental overlays. For stage 1 and stage 2 financial assets, the Company considers a probability weighted estimate of a loan's (or a loan segment's) ECL based on a given set of economic conditions, probability of default (PD), loss given default (LGD), and exposure at default (EAD). Economic conditions used represent potential forward looking economic paths. The quantitative estimation frameworks leverage the forward looking economic path to produce initial loss estimates. The initial loss estimates are then probability weighted based on the likelihood of those economic paths.

Loan portfolios are segmented based on their current credit risk characteristics to apply the appropriate risk parameters to each loan or loan segment. PDs represent a quantification of risk that a borrower may not be able to pay their contractual obligation over a defined period of time. The estimate of PD includes consideration of internal risk ratings based on borrower characteristics, industry and time to maturity. LGD describes the Company's estimate of potential loss if a borrower were to default. The estimate of LGD includes consideration of collateral type, collateral value and outstanding exposure. EAD (or utilisation rates for revolving loans) is the estimated balance outstanding in future periods which are at a risk of default and loss. The estimate of EAD includes consideration of historical balances, contractual maturities and historical utilisation experience.

In determining ECL, management is also required to exercise significant judgement in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. This judgement is expressed through the application of qualitative judgemental overlays and consideration of expected potential economic conditions. The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions. Where sufficient information is not available internally, the Company has benchmarked internal and external supplementary data. Many of the factors have a high degree of interdependency and there is no single factor to which ECL provisions as a whole are considered materially sensitive.

The Company has considered the impact on ECL of four different economic scenarios, representing potential future economic paths, with weightings applied as follows:

	Upside	**Base**	**Downside**	**Severe Downside**
31 December 2019	7%	53%	35%	5%
31 December 2018	26%	38%	27%	9%

The key economic measures considered in the development and application of the scenarios includes gross domestic product (GDP), unemployment and interest rates.

The base scenario represents the Company's base case economic outlook and is considered to approximate general consensus forecasts, and therefore has the highest weighting. This represents a period of moderate economic growth.

The upside scenario represents a period of strong economic growth with a more positive economic trajectory than the base scenario, including steeper and longer lasting reductions to unemployment, growth in GDP and increasing interest rates, similar to the growth experienced by the UK economy over the period of 1987-1988.

The severe downside scenario represents a scenario which is considered to have low probability but with a significant economic impact, typically observed in severe recession periods similar to the effect of the global financial crisis experienced by the UK economy over the period of 2008-2009. It is characterised by deep, long troughs in economic activity, with delays in return to normal economic activity.

The downside scenario represents a mild economic slow-down, with increasing unemployment, a contraction in GDP and decreasing interest rates, typical of economic experience in moderate recession periods. The decline to trough occurs sooner than the severe recession scenario, and is not as severe as those seen as a result of the global financial crisis. Recovery from moderate recessionary conditions occurs more quickly than the severe downside scenario. This scenario could be considered similar to the experience of the UK economy in a recession over the period of 1990-1991.

Management is satisfied that these scenarios and weightings, along with other assumptions, ensure that the non-linearity of losses is captured in the probability weighted ECL.

For stage 3 financial assets, the ECL provision is calculated based on the difference between the carrying amount of the asset and its estimated recoverable amount, by reference to the expected cash flows discounted at the original effective interest rate for the asset or its collateral value less cost to sell. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised.

	Stage 1	Stage 2	Stage 3	
	12-month ECL £	Lifetime ECL £	Lifetime ECL £	Total £
Gross carrying amount at 31 Dec 2019	908,211,643	241,224,639	62,759	1,149,499,041
Loss allowance by credit grade at 31 Dec 2019:				
Non-watchlist	2,644,344	239,368	-	2,883,712
Watchlist	-	5,087,808	-	5,087,808
Default	-	-	28,241	28,241
Loss allowance at 31 Dec 2019	2,644,344	5,327,176	28,241	7,999,761
Net carrying amount at 31 Dec 2019	905,567,299	235,897,463	34,518	1,141,499,280

	Stage 1	Stage 2	Stage 3	
	12-month ECL £	Lifetime ECL £	Lifetime ECL £	Total £
Gross carrying amount at 31 Dec 2018	838,029,284	238,294,606	219,877	1,076,543,767
Loss allowance by credit grade at 31 Dec 2018:				
Non-watchlist	1,912,724	47,168	-	1,959,892
Watchlist	-	9,257,464	-	9,257,464
Default	-	-	98,944	98,944
Loss allowance at 31 Dec 2018	1,912,724	9,304,632	98,944	11,316,300
Net carrying amount at 31 Dec 2018	836,116,560	228,989,974	120,933	1,065,227,467

Movements in the ECL allowance were largely driven by improvements in the stage 2 borrowers' PDs, LGDs and EADs. The following table explains the changes in the ECL allowance between the beginning and the end of the annual period:

	Stage 1	Stage 2	Stage 3	
	12-month ECL £	Lifetime ECL £	Lifetime ECL £	Total £
Loss allowance as at 31 Dec 2018	1,912,724	9,304,632	98,944	11,316,300
Transfers from Stage 1 to Stage 2	(590,344)	2,383,530	-	1,793,186
Transfers from Stage 1 to Stage 3	-	-	-	-
Transfers from Stage 2 to Stage 1	197,826	(1,034,218)	-	(836,392)
Transfers from Stage 2 to Stage 3	-	-	-	-
Financial assets originated	1,014,237	-	-	1,014,237
Changes in PDs/LGDs/EADs	171,766	(5,255,839)	(70,703)	(5,154,776)
Financial assets derecognized	(61,865)	(70,929)	-	(132,794)
Loss allowance as at 31 Dec 2019	2,644,344	5,327,176	28,241	7,999,761

	Stage 1	Stage 2	Stage 3	
	12-month ECL £	Lifetime ECL £	Lifetime ECL £	Total £
Loss allowance at 1 Jan 2018	2,153,479	4,485,474	371,139	7,010,092
Transfers from Stage 1 to Stage 2	(809,675)	5,790,941	-	4,981,266
Transfers from Stage 1 to Stage 3	-	-	-	-
Transfers from Stage 2 to Stage 1	98,977	(524,246)	-	(425,269)
Transfers from Stage 2 to Stage 3	-	-	-	-
Financial assets originated or purchased	694,916	-	-	694,916
Changes in PDs/LGDs/EADs	(36,373)	31,713	(272,195)	(276,855)
Other	52,265	369,563	-	421,828
Financial assets derecognized	(240,865)	(848,813)	-	(1,089,678)
Loss allowance at 31 Dec 2018	1,912,724	9,304,632	98,944	11,316,300

There were specific recoveries of previously recognised credit losses in 2019 of £2,638,812, and when combined with the decrease in ECL from 31 December 2018 to 31 December 2019 of £3,316,539, equals £5,955,351 of impairment release reported on the Income Statement for 2019.

There were no specific recoveries of previously recognised credit losses in 2018. The increase in ECL from 1 January 2018 to 31 December 2018 of £4,306,208 equals the impairment expense reported on the Income Statement for 2018.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Company assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings. The utilisation of credit limits is regularly monitored.

The below table shows the credit rating and the deposits with all counterparties at the balance sheet date:

Counterparty	Moody's Credit Rating	Deposits with Banks	
		2019	2018
		£	£
Barclays Bank PLC	A2	172,252,070	210,137,440
Total Cash		172,252,070	210,137,440

Maximum exposure to credit risk and effects of collateral and other credit enhancements:

	Total exposure	Non-cash collateral provided by borrower	Guarantees provided by borrower	Total collateral and other enhancements
	£	£	£	£
At 31 December 2019				
Loans and advances to customers:				
Stage 1 and Stage 2 Commercial Loans	1,149,436,282	2,276,994,756	102,500	2,277,097,256
Stage 3 Commercial Loans	62,759	62,759	-	62,759
Total on-balance sheet	**1,149,499,041**	**2,277,057,515**	**102,500**	**2,277,160,015**
Off-balance sheet:				
Loan commitments	238,375,274	-	-	-
Total off-balance sheet	**238,375,274**	**-**	**-**	**-**
Total maximum exposure to credit risk	**1,387,874,315**	**2,277,057,515**	**102,500**	**2,277,160,015**

	Total exposure	Non-cash collateral provided by borrower	Guarantees provided by borrower	Total collateral and other enhancements
	£	£	£	£
At 31 December 2018				
Loans and advances to customers:				
Stage 1 and Stage 2 Commercial Loans	1,076,323,890	2,405,237,770	102,500	2,405,340,270
Stage 3 Commercial Loans	219,877	219,877	-	219,877
Total on-balance sheet	**1,076,543,767**	**2,405,457,647**	**102,500**	**2,405,560,147**
Off-balance sheet:				
Loan commitments	307,145,980	-	-	-
Total off-balance sheet	**307,145,980**	**-**	**-**	**-**
Total maximum exposure to credit risk	**1,383,689,747**	**2,405,457,647**	**102,500**	**2,405,560,147**

The maximum credit exposure is limited to the amounts shown on the Statement of Financial Position for derivative financial instruments, cash and cash equivalents, and receivables and prepaids.

Non-cash collateral represents any one or a combination of Account Receivables, Inventory, Real Estate Property and Machinery & Equipment.

c) Liquidity risk

The Company is exposed to liquidity risk to the extent that it is unable to meet its daily payment obligations. The Company maintains sufficient cash and cash equivalents to meet all its financial obligations as they fall due. Management monitors forecasts of the Company's liquidity, prepared to reflect expected cash flow, and overlays sensitivities to these forecasts to reflect assumptions about more difficult market conditions.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Company maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors the Company's liquidity reserves defined as follows:

	2019	2018
	£	£
Cash at bank and on hand	172,252,070	210,137,440
Unused portion of committed credit facilities	250,182,954	311,087,229
Liquidity Reserve	422,435,024	521,224,669

The table below analyses the Company's financial liabilities in relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and may not agree directly to the balances in the Statement of Financial Position.

At 31 December 2019	Less than 3 months £	Between 3 months and 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
Borrowings	-	504,761,936	-	-	-
Trade and other payables	7,736,665	-	-	-	-
Lease liabilities	70,575	214,508	212,000	636,000	835,077
At 31 December 2018					
Borrowings	-	496,299,792	87,763,128	315,590,622	123,030,969
Trade and other payables	32,648,411	-	-	-	-

The table below analyses the Company's off-balance sheet exposure in relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

At 31 December 2019	Less than 3 months £	Between 3 months and 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
Financial guarantees	102,500	-	-	-	-
At 31 December 2018					
Financial guarantees	102,500	-	-	-	-

d) Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern. The capital structure of the Company consists of equity, comprising issued share capital and share premium, reserves and retained earnings as disclosed in the Statement of Financial Position and in Note 16.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the Statement of Financial Position, plus net debt.

The gearing ratio at 31 December 2019 and 2018 was as follows:

	2019 £	2018 £
Total borrowings	504,761,936	963,129,411
Less: cash and cash equivalents	172,252,070	210,137,440
Net debt	332,509,866	752,991,971
Total equity	804,462,594	280,270,385
Total capital	**1,136,972,460**	**1,033,262,356**
Gearing ratio	**29%**	**73%**

4 Significant judgements and estimates

The preparation of the financial information in accordance with IFRS requires management to make judgements, estimates and assumptions about the future that in turn affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. While management continuously evaluates the estimates and judgements, which are based on management's experiences and other factors, actual results may differ from those estimates.

It is considered that the only significant judgements and estimates relate to provisions against loans for ECLs under IFRS 9. Specific judgements surrounding the application of the Company's accounting policies include determining when a significant increase in credit risk has occurred. Significant estimation uncertainty exists around management's forward looking assumptions and weightings and management's qualitative adjustments to the ECL See Note 2(c) for accounting policies and Note 3(b) for details around credit risk.

As with any ECL estimate, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be materially different to those projected. Given that IFRS 9 requirements were first applied during 2018, there has been little time available to compare differences between loss estimates and actual loss experience. Therefore, the underlying quantitative estimation frameworks, including how they react to forward-looking economic conditions, remain subject to review and refinement. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows. Estimating the amount and timing of future recoveries involves significant judgement and considers such matters as the economic conditions and value of collateral.

To illustrate the level of sensitivity and estimation uncertainty, the impact of alternative assumptions has been considered below:

A change to 100% in the probability weighting relating to the severe downside scenario would result in an increase in ECL of £6,276,069 at 31 December 2019.

A 10% increase in the probability weighting relating to the severe recession scenario, with a corresponding 10% decrease in the moderate growth scenario, would result in an increase in ECL of £981,892 at 31 December 2018. Additionally, a 10% decrease in the probability weighting relating to the upside scenario, with a corresponding 10% increase in the base scenario, would have resulted in an increase in ECL of £78,807 at 31 December 2018.

Due to the change in scenario sensitivities shown above, a comparison between the current period and prior period is difficult.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that estimates and judgements are reasonable at the Statement of Financial Position dates.

5 Revenue

	2019 £	2018 £
Interest income	41,557,895	38,383,598
Loan fees	12,348,390	12,580,405
Other fees	91,759	80,338
Total Revenue	53,998,044	51,044,341

Interest income includes deferred loan origination fees, which are deferred and recognised over the life of loan under the effective interest rate method. Loan fees contain non-origination fees, i.e. collateral management fees, which are recognised as the services are provided.

6 Administrative expenses by nature

	2019 £	2018 £
Personnel costs (Note 7)	7,639,865	7,737,128
Employee expenses	621,015	551,144
Occupancy	649,638	650,727
Equipment & technology	245,292	260,380
Banking fees	406,090	387,077
Value added tax	377,071	413,921
Miscellaneous professional services	396,705	635,725
Intercompany services (Note 19)	203,903	279,487
Auditors' remuneration for audit of these financial statements	136,500	97,500
Other expenses	197,935	248,679
Total administrative expenses	10,874,014	11,261,768

No non-audit services were provided to the Company by the Company's auditors during 2019 or 2018.

7 Personnel costs

The aggregate payroll costs of persons employed, including key management, were as follows:

	2019 £	2018 £
Wages and salaries	6,211,625	6,202,886
Social security costs	841,881	861,343
Other pension costs	586,359	672,899
Total personnel costs	7,639,865	7,737,128

The monthly average number of full-time employees employed by the Company during the year was as follows:

	2019	2018
	Number	Number
Sales	10	14
Credit	25	27
Administrative	22	18
Total full-time employees	57	59

8 Key management and directors' emoluments

Key management has been identified as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including its directors and management. Key management compensation is included in administrative expenses in the Income Statement and Statement of Comprehensive Income as part of personnel costs.

Key management compensation	**2019**	**2018**
	£	**£**
Salaries and other short-term employee benefits	440,339	416,823
Share-based payments	85,534	75,246
Post-employment benefits	-	14,777
Total	**525,873**	**506,846**

Directors' emoluments	**2019**	**2018**
	£	**£**
Salaries and other short-term employee benefits	605,434	561,136
Share-based payments	182,937	160,335
Post-employment benefits	10,466	23,953
Total	**798,837**	**745,424**

Emoluments for non-management directors are not included in the Company's Income Statement, as they are borne by the ultimate parent company. The emolument of the highest paid director in 2019 was £525,873 (2018: £506,846).

9 Finance income and expense

Finance income	**2019**	**2018**
	£	**£**
Interest on deposits with banks	274,404	191,499
Net foreign exchange gain	387,264	277,520
Total finance income	661,668	469,019

Finance expense	**2019**	**2018**
	£	**£**
Long-term borrowings interest	12,927,949	12,225,031
Line of credit interest	10,059,031	8,208,167
Other interest	44,996	-
Total finance expense	23,031,976	20,433,198

Term loan and revolving line of credit expense amounts are part of related party transactions. See Note 19 for further details.

Currency revaluation and marked-to-market adjustments on derivatives used for hedging are reflected in either finance income or finance expense under net foreign exchange gain or loss, respectively. Please refer to Note 3(a)(i), which outlines the foreign exchange risk strategy implemented.

10 Income tax

Profit and loss account

Analysis of income tax expense on ordinary activities:

Income tax expense is comprised of the current tax provision and the change in the net deferred tax assets and liabilities. The allocation between current and deferred tax expense is as follows:

	2019	2018
	£	£
Current taxes on income for the reporting year	4,967,035	6,051,164
Adjustments in respect of prior periods	(948,324)	(52,042)
Total current tax expense	**4,018,711**	**5,999,122**
Deferred Tax:		
Timing differences, origination and reversal	100,682	(808,942)
Adjustments in respect of prior periods	951,371	-
Total deferred tax expense / (benefit)	**1,052,053**	**(808,942)**
Total income tax expense on ordinary activities	**5,070,764**	**5,190,180**

Factors affecting income tax expense in the year:

	2019	2018
	£	£
Profit before tax	26,709,073	15,512,186
Tax at the rate of 19.00% (2018: 19.00%) of corporation tax for the year	5,074,725	2,947,316
Effects of:		
(Deductible) / Nondeductible expenses for tax purposes	(7,008)	2,294,906
Adjustments in respect of prior periods	3,047	(52,042)
Total income tax expense for the year	**5,070,764**	**5,190,180**
Effective tax rate for the year	**19%**	**33%**

The decrease in the effective tax rate from 2018 to 2019 is attributable to a change in Luxembourg tax law. Effective 1 January 2019, intra-group interest payments from the Company to PNC Financial Services Holding Luxembourg S.a.r.l. are taxable in Luxembourg. Consistent with the Finance Act 2016 hybrid and other mismatch rules, UK tax deductions will be allowed on intra-group interest payments taxable in Luxembourg.

Deferred tax

Movement of deferred tax balance in the year:

	2019	2018
	£	£
Opening deferred tax asset	2,167,188	26,329
Adjustments in respect of prior periods	(951,371)	-
(Debit) / credit to profit and loss account	(100,682)	808,942
Impact of adoption of IFRS 9	-	1,331,917
Closing deferred tax asset	**1,115,135**	**2,167,188**

Analysis of deferred tax balance at 31 December:

	2019	2018
	£	£
Capital allowances in excess of depreciation	(95,170)	(114,301)
Loan loss reserve	1,065,534	2,150,097
Restricted stock plan	144,771	131,392
Deferred tax asset	**1,115,135**	**2,167,188**

Deferred tax has been recognised at a rate of 19% based on year end rate. The UK corporate income tax rate was reduced to 19% on 1 April 2017 based on substantially enacted tax rates.

Corporation current tax

	2019	2018
	£	£
Corporation current tax asset / (liability)	**812,337**	**(3,082,291)**

11 Property, plant and equipment

	Computers and Software	Other Hardware	Furniture	Leasehold Improvements	Total
	£	£	£	£	£
Year ended 31 December 2018					
Opening net book amount	6,695	97,946	131,612	672,289	908,542
Depreciation Charge	(2,693)	(37,619)	(33,271)	(58,668)	(132,251)
Closing Net Book Amount	4,002	60,327	98,341	613,621	776,291
At 31 December 2018					
Cost or Valuation	13,465	477,377	232,898	880,019	1,603,759
Accumulated Depreciation	(9,463)	(417,050)	(134,557)	(266,398)	(827,468)
Net Book Amount	4,002	60,327	98,341	613,621	776,291
Year ended 31 December 2019					
Opening net book amount	4,002	60,327	98,341	613,621	776,291
Depreciation Charge	(2,693)	(37,619)	(33,271)	(58,667)	(132,250)
Closing Net Book Amount	1,309	22,708	65,070	554,954	644,041
At 31 December 2019					
Cost or Valuation	13,465	477,377	232,898	880,019	1,603,759
Accumulated Depreciation	(12,156)	(454,669)	(167,828)	(325,065)	(959,718)
Net Book Amount	1,309	22,708	65,070	554,954	644,041

12 Cash and cash equivalents

Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no differences between their book and fair values.

The Company has cash with banks and in hand of £172,252,070 at 31 December 2019. The Company had cash with banks and in hand of £210,137,440 at 31 December 2018.

13 Financial instruments and fair value

Fair value is defined in IFRS as the price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date. IFRS focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. IFRS establishes a fair value reporting hierarchy to maximise the use of observable inputs when measuring fair value and defines the three levels of inputs as noted below.

Level 1

Fair value is determined using a quoted price in an active market for identical assets or liabilities. Level 1 assets and liabilities may include debt securities, equity securities and listed derivative contracts that are traded in an active exchange market and certain U.S. Treasury securities that are actively traded in over-the-counter markets.

Level 2

Fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly. Level 2 assets and liabilities may include debt securities, equity securities and listed derivative contracts with quoted prices that are traded in markets that are not active, and certain debt and equity securities and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable inputs.

Level 3

Fair value is estimated using unobservable inputs that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities may include financial instruments whose value is determined using pricing services, pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as other instruments for which the determination of fair value requires significant management judgement or estimation.

For short-term financial instruments realisable in twelve months or less, the carrying amount reported on the Statement of Financial Position approximates fair value. Unless otherwise stated, the rates used in discounted cash flow analyses are based on market yield curves.

Derivatives

Over-the-counter forward contracts are valued based on internal models using readily observable market inputs that are validated to external sources.

Loans and advances

Fair values of loans are estimated based on the discounted value of expected future cash flows, incorporating assumptions about prepayment rates, net credit losses and servicing fees. For revolving commercial credit lines, this fair value does not include any amount for new loans or the related fees that will be generated from the existing customer relationships.

Nonaccrual loans are valued at their estimated recovery value. The carrying amount of loans and advances is presented net of the ECL allowance.

The following tables present, by hierarchy level, financial instruments carried at fair value:

At 31 December 2019	Fair Value	Level 1	Level 2	Level 3
	£	£	£	£
Financial Assets:				
Derivative Financial Instruments	538,599	-	538,599	-
Total	538,599	-	538,599	-

At 31 December 2018	Fair Value	Level 1	Level 2	Level 3
	£	£	£	£
Financial Assets:				
Derivative Financial Instruments	634,188	-	634,188	-
Total	634,188	-	634,188	-

The following tables present the fair value of financial assets carried at amortised cost:

At 31 December 2019	Carrying Amount	Fair Value
	£	£
Financial Assets:		
Loans and advances, net of allowance	1,141,499,280	1,129,158,658
Total	1,141,499,280	1,129,158,658

At 31 December 2018	Carrying Amount	Fair Value
	£	£
Financial Assets:		
Loans and advances, net of allowance	1,065,227,467	1,072,785,005
Total	1,065,227,467	1,072,785,005

The fair value for loans and advances would be classified as Level 3.

Financial liabilities carried at amortised cost included borrowings. The carrying amount of borrowings at amortised cost approximates its fair value. The fair value for borrowings would be classified as Level 3.

14 Loans and other receivables

Non-current and current loans and other receivables

	2019	2018
	£	£
Loans and advances	1,149,499,041	1,076,543,767
Less: Loss allowance	(7,999,761)	(11,316,300)
Total loans and advances, net of allowance	1,141,499,280	1,065,227,467
Receivables and prepayments	112,664	187,924
Total	1,141,611,944	1,065,415,391

The net carrying amounts of the Company's non-current and current loans and advances and other receivables are denominated in the following currencies:

	2019 £	2018 £
UK pound	985,233,542	920,832,273
Euros	77,873,544	66,744,031
US dollar	64,026,844	77,848,455
Swedish krona	14,086,912	-
Other currencies	391,102	(9,368)
Total	1,141,611,944	1,065,415,391

15 Trade and other payables

	2019 £	2018 £
Accrued Borrowing Interest	1,045,429	13,485,003
Accrued Expenses & Other Liabilities	6,691,236	19,163,408
Total	7,736,665	32,648,411

All amounts of trade and other payables are current. Accrued borrowing interest is due to related parties. See Note 19. Accrued expenses and other liabilities includes an amount of £4,470,784 (2018: £17,069,194) relating to excess cash payments received on loans and advances, and therefore due back to customers.

16 Share capital and share premium

	2019 £	2018 £
Share Capital		
Authorized		
7,555,539 (2018: 2,529,999) ordinary shares	7,555,539	2,529,999
Alloted, called up, and fully paid		
7,555,539 (2018: 2,529,999) ordinary shares	7,555,539	2,529,999
Total Share Capital	**7,555,539**	**2,529,999**

	2019 £	2018 £
Share Premium		
At 1 January	250,470,001	250,470,001
Issued during the year	497,528,360	-
At 31 December	**747,998,361**	**250,470,001**

The injections of capital made were £17,180,828 in November 2010, £25,819,172 in December 2011, £50,000,000 in December 2012, £40,000,000 in December 2014, £120,000,000 in September 2017, and £502,553,900 in December 2019 by PNC Financial Services Holding Luxembourg S.a.r.l. Prior to 2019, each injection of capital was comprised of cash. The 2019 capital infusion was the result of converting non-current borrowings and associated accrued interest to equity as a result of recently enacted Luxembourg tax law changes.

17 Commitments and contingent liabilities

The Company has entered into guarantees to third parties of £102,500 as of 31 December 2019 and £102,500 as of 31 December 2018. The purpose of the guarantees is to support the banking arrangements of our customers for specific regular payments, such as BACS (Bankers' Automated Clearing Services), credit cards, etc.

18 Leases

The Company has lease contracts for office buildings to support its operations. These leases generally have lease terms between 1 and 10 years. The carrying amounts of ROU assets recognised and the movements during the year are as follows:

	Office Buildings
	£
Balance - 1 January 2019	2,016,445
Amortisation expense	(250,234)
Balance - 31 December 2019	1,766,211

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2019
	£
Balance - 1 January 2019	2,016,445
Interest expense	44,996
Base rent payments	(282,299)
Balance - 31 December 2019	1,779,142

The weighted average incremental borrowing rate applied to lease liabilities recognised in the Statement of Financial Position at 1 January 2019 was 2.36%. At 31 December 2019, approximately £245,731 of the lease liabilities reported above are expected to be paid in full within twelve months, with the remaining balances greater than one year.

The amounts recognised in profit or loss for the year are as follows:

	2019
	£
Amortisation expense of ROU assets	250,234
Interest expense on lease liabilities	44,996
Total amount recognised in profit or loss	295,230

For the prior year ended 31 December 2018, the Company recognised £350,691 in profit or loss for rent expense.

The Company had total cash outflows related to all lease commitments, including short-term leases, of £327,738 and £332,029 in 2019 and 2018, respectively. The future cash outflows, including short-term leases, are as follows:

	2019	**2018**
	£	**£**
Due within one year	319,955	327,738
Due between two and five years	881,286	921,083
Due greater than five years	835,077	1,047,077
Total	2,036,318	2,295,898

19 Transactions with related parties

Intercompany services

The PNC Financial Services Group, Inc. provided intercompany services in support of the Company in the year services were paid in the amount of £203,903 (2018: £279,487).

The Company provided intercompany services in support of PNC Bank, National Association in the year services were received in the amount of £91,759 (2018: £80,338).

Line of credit

On 13 October 2010, the Company entered into a committed line of credit agreement with PNC Bank, National Association for $1,000,000,000 (£754,944,890) at market terms.

Advances under the line of credit may be used for general working capital needs or other general business purposes of the Company, including the origination of customer loans. The applicable per annum interest rate is LIBOR + 1.25%. At year end, there were the following draws on the line of credit:

	2019	2018
Currency Drawn	**£**	**£**
UK pound	398,000,000	358,000,000
US dollar	64,170,316	84,735,789
Euros	20,325,532	28,764,976
Swedish krona	18,944,564	-
Canadian dollar	1,395,355	-
Australian dollar	1,059,414	1,105,410
Japanese yen	694,745	715,769
Norwegian krone	172,010	181,467
Total	504,761,936	473,503,411

All line of credit draws are classified as current liabilities.

Long-term borrowings

The Company previously entered into floating market rate note instruments with PNC Financial Services Holding Luxembourg S.a.r.l. The applicable per annum interest rate was LIBOR + 2.00%, calculated on the first business day of the interest period. See Note 1 and Note 9.

At 31 December 2019, the total long-term borrowings were £0 (2018: £489,626,000).

Other transactions

See Note 8 for key management compensation and directors' emoluments and Note 16 for share capital and share premium.

No other transactions were entered into with related parties during the year.

20 Ultimate parent company

The Company's ultimate parent undertaking and controlling party and the parent that headed the largest group of undertakings for which consolidated financial statements were prepared was The PNC Financial Services Group, Inc., incorporated in the United States. The Company's parent is PNC Financial Services Holding Luxembourg S.a.r.l., incorporated in Luxembourg. One hundred percent of the issued share capital of the Company was beneficially owned by its ultimate parent undertaking. See Note 1.

A copy of The PNC Financial Services Group, Inc.'s consolidated financial statements can be obtained at: The Tower at PNC Plaza, 300 Fifth Avenue, Pittsburgh, Pennsylvania, 15222-2707.

21 Dividends

No dividend has been proposed or paid for the year ended 2019 (2018: £nil).

22 Post balance sheet events

The Company has evaluated subsequent events through the date of issuance of the financial statements for their impact on reported results and disclosures. On 11 March 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic and recommended worldwide containment and mitigation measures. The COVID-19 outbreak and public health response to contain it have resulted in recessionary economic and financial market conditions as of the publication of these financial statements that did not exist at 31 December 2019. Although the outbreak and its consequences, including mitigation measures to manage it, are likely to adversely affect the Company's business and financial performance, a quantitative estimate of the financial impacts is not feasible at this time.