



Instant Cash Loans Limited

Scheme Supervisors' First Quarterly Report to the Scheme Creditors

17 February 2020

Scheme Creditor Update

Disclaimer

This Report has been prepared on the basis set out in the Scheme in Clauses 6.1.3, 6.2.3, 6.4 and 6.5 and in our Engagement Letter addressed to Instant Cash Loans Limited (the “Client”) dated 9 October 2019.

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Please note that the figures stated in this report are presented in ‘millions’ and therefore there may be some presentational rounding differences. For the avoidance of doubt, the figures contained within the report cast correctly.

Scheme Creditor Update

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Glossary

August Report	Project Chelmer – Comparison of outcome for creditors – dated 5 August 2019, and made available to creditors via ICL’s website in August 2019	Non-Redress Scheme Outturn	Estimated pay out to Non-Redress Creditors in the Scheme
Bar Date	9 April 2020	Redress Claim	A claim which relates to the provision of a loan
BAU	Business as Usual	Redress Creditor	As defined in the Scheme of Arrangement
DISP	FCA’s Dispute Resolution: Complaints Sourcebook	Redress Scheme Outturn	Estimated pay out to Redress Creditors in the Scheme
Dollar	Dollar Financial U.K. Limited	Scheme	ICL’s Scheme of Arrangement which became effective on 9 October 2019
EOS	Estimated Outcome Statement	September Update	ICL’s September 2019 update to Redress Creditors (attached at Appendix 1) which was based on the estimated Redress Scheme Outturn as per the August Report but with the Redress Creditor claim value updated to reflect the changed assumptions.
Excluded Liabilities	As defined in the Scheme of Arrangement	Shareholder Contribution	Funds paid and payable to ICL from the Shareholder and held on trust by ICL to settle costs associated with Redress Claims and Scheme Costs
FCA	Financial Conduct Authority	Scheme Costs	As defined in the Scheme of Arrangement
FOS	Financial Ombudsman Service	Scheme Effective Date	9 October 2019
GBP	Great British Pound	Scheme Supervisors	Edward George Boyle and Ben Maitland Leith
ICL, or the Company	Instant Cash Loans Limited	Shareholder	Aurajoki Holdings UK Limited
ICL Subsidiaries	21 subsidiaries within the ICL group	Uphold Rate	The rate at which customer Redress Claims against ICL are agreed
IDS	Internally Developed Software	USD	United States Dollar
KPMG	KPMG LLP	p/£	Pence in the pound
Liquidator	A licenced insolvency practitioner appointed by the directors, unsecured creditor or by court order to manage the winding up of the Company		
Non-Redress Claim	A claim which is not a Redress Claim or an Excluded Liability		
Non-Redress Creditor	As defined in the Scheme of Arrangement		

Scheme Creditor Update

Scheme Update

Scheme overview and background

- ICL operated in the UK providing unsecured short term, high cost consumer loans online and through a network of stores, together with pawn broking services. It ceased providing new loans in August 2018 and ceased any new pawn broking business in July 2019.
- This occurred following a significant increase in the number of affordability complaints, as well as a review into its lending practices. The Company made a provision in its accounts for the year ended 30 June 2018 resulting in a loss for the year of £89.2 million.
- As trading had ceased, cash was not being generated to pay down its liabilities. Therefore, the Company proposed a Scheme of Arrangement under Part 26 of the Companies Act 2006 in order to maximise the return to creditors. This would be funded by Dollar, who had provided an indemnity to the Shareholder in relation to certain Redress Claims made against ICL.

Summary of key dates

- The Scheme of Arrangement was sanctioned by the High Court on the 8 October 2019.
- The Scheme Effective Date was on 9 October 2019.
- The Bar Date for claims, being the deadline by which all scheme creditors must submit a claim to ICL if they wish to submit any claim, is 9 April 2020 (6 months from the Scheme Effective Date).
- All dividend payments are anticipated to have been paid, and the Scheme is anticipated to be completed, by 31 March 2021, to be followed by the solvent liquidation of the Company.

Claims

- Immediately following the Scheme Effective Date, all known potential Redress Creditors were contacted and invited to make a claim under the Scheme using the online claim portal.
- All known potential Non-Redress Creditors have also been provided with a claim form and invited to submit their claim.

Scheme Supervisors' quarterly update to Scheme Creditors

- Under the terms of the Scheme, the Scheme Supervisors are required to provide an update report to Scheme Creditors each quarter. This first such report is for the period to 8 January 2020. We anticipate that the second such report, covering the period to 8 April 2020, will be made available to Scheme Creditors in early May 2020.

Estimated Scheme Outturn

- ICL's indicative estimate of the Redress Scheme Outturn has reduced from 14p/£ low estimate in the September Update to 'up to 10p/£' per current calculations. **However material uncertainties remain, in particular the Uphold Rate assumption for Redress Claims received before the Bar Date, which is currently being reviewed by ICL. Once ICL has finalised its decision engine for the adjudication of claims and has a clearer view of the likely Uphold Rate, any further change in the Uphold Rate could potentially reduce the Scheme Outturn to significantly less than 10p/£.** See page 8 for more details.
- ICL's indicative estimate of the Non-Redress Scheme Outturn has also reduced slightly from 13.2p/£ in the August Report to 10.0p/£ per current calculations. The key uncertainties in this estimate include the realisable value of the remaining loan book and the value of claims that is received before the Bar Date. Additionally it should be noted that the terms of the Scheme require that the pence in the pound return to Non-Redress Creditors should not exceed the pence in the pound return to Redress Creditors. See page 11 for more details.



Overview of Scheme

- The Scheme consists of two classes of creditors, which will each benefit from different assets. The purpose of the Scheme is to crystallise all creditor claims, including all customer Redress Claims and claims arising from the effect of the Scheme on obligations arising under property leases, associated property contracts and other outstanding contractual commitments. This allows the Company and the ICL Subsidiaries to be wound down through a solvent process whilst maximising realisations to creditors.

Redress Creditors

- Redress Creditors consist of all creditors with claims relating to the provision of a loan, which will primarily consist of affordability related complaints but may also include other complaints such as fraud or system errors.
- In the Scheme, the Redress Creditors shall receive the benefit of a Shareholder Contribution (c.£20 million), reduced by the costs to run the scheme (estimated to be £7.9 million at the date of this report).
- A significant proportion of the Redress Creditors in the Scheme were previously creditors of the ICL Subsidiaries, not ICL itself. Upon the Scheme becoming effective, ICL assumed these Redress Liabilities in exchange for the release of certain intercompany positions and indemnities by the ICL subsidiaries. As a condition of the Scheme, these creditors also released their claims against the ICL Subsidiaries.

Non-Redress Creditors

- Non-Redress Creditors consist of all other creditor claims against the Company (other than creditors with Excluded Liabilities). These primarily consist of creditors whose liability arose due to the closure of stores (rent, rates and other facilities), FOS fees due to customer complaints, intercompany balances and other trade creditors.
- The effect of the Scheme was to reduce the rent, service charge and other similar obligations arising under closed property leases to nil. This results in the landlords having significant claims relating to the future lease obligations.
- The Non-Redress Creditors shall receive the benefit of the realisable value of the Company's assets. These realisable assets are i) outstanding loans relating to the online unsecured loan business, and ii) stock relating to the closed down pawn broking business which includes customer pledged goods (Management advised that all customer owned retail stock was sold prior to the Scheme Effective Date).

Scheme Costs

- Scheme Costs incurred from the Scheme Effective Date are to be generally paid from the funds available to the Redress Creditors. Only such costs arising in relation to the Non-Redress Creditors, or the assets of which they will receive benefit, shall be borne by that estate.
- Scheme Costs shall include the costs of designing, implementing and administering the Scheme, the costs of discharging the Excluded Liabilities and funds required to complete the closure of the Company and the ICL Subsidiaries.



Redress Creditors

Scheme Creditor Update

Redress Creditors (1/2)

Indicative Redress Creditors' Scheme Outturn			
£'m	Previous low estimate as at September Update ⁽¹⁾	Estimate as at date of this report	Variance
Shareholder contribution - pre Scheme	3.6	3.6	0.0
Shareholder Contributions - post Scheme	16.9	16.6	(0.3)
Total Shareholder Contribution	20.6	20.2	(0.4)
Redress Claims - pre effective date	(0.7)	-	0.7
Scheme Costs - pre effective date	(1.8)	(1.9)	(0.1)
Scheme Costs - post effective date	(4.5)	(6.0)	(1.5)
Available to Redress Creditors	13.6	12.5	(1.1)
Redress Creditors	97.0	125 or higher	-
Estimated return to Redress Creditors	14 p/£	Up to 10 p/£⁽²⁾	(4)p/£ or higher

- Note: (1) The September Update is based on the estimated outturn analysis in the August Report, but with the Redress Creditor claim value adjusted by ICL to reflect changes highlighted in ICL's September 2019 update to creditors (attached at Appendix 1).
- (2) 10 p/£ represents the highest potential return to creditors based on a Redress Creditors claims of £125 million or higher. An indicative range has been presented due to material uncertainties around the Uphold Rate, resulting from ICL's continued testing of its decision engine.

Key observations

ICL currently estimate that there will be an indicative Redress Scheme Outturn of up to 10p/£ available to Redress Creditors. This represents a 4p/£ (or higher) reduction from the 14p/£ low estimate in the September Update.

Material uncertainties remain, in particular around the Uphold Rate assumption which underpins ICL's estimate of the Redress Creditor claim value of £125 million or higher. Any further increase in the Uphold Rate could potentially reduce the return to significantly less than 10p/£.

Asset realisations

- When the Shareholder bought ICL from Dollar on 5 February 2018, Dollar indemnified the Shareholder for certain redress claims made by customers.
- Indemnity payments from Dollar are being received by the Shareholder in line with their agreement, and the Shareholder is making these funds available to ICL each month as anticipated by the Scheme.
- The £0.3 million variance in total anticipated shareholder contributions is caused by foreign exchange differences as funds are received in USD and then converted into GBP.

Redress Claims

- Costs relating to Redress Claims in the period pre Scheme consisted of a S.166 skilled person review and of settling pre-Scheme compensation claims. These costs were originally planned to be paid from the Shareholder Contributions however:
 - In the period leading up to the Scheme and the preparation of the EOS in August, ICL was in a distressed position, and was only paying essential suppliers.
 - ICL's continuing obligations to consumers under DISP meant that redress payments were required to be paid up until a certain point, and management's view in August was that ICL was unable to meet these costs from its own resources.
 - ICL would therefore draw upon the Shareholder Contributions in advance of Scheme Effective Date in order to continue to meet its obligations and thereby launch the Scheme.

Scheme Creditor Update

Redress Creditors (2/2)

Indicative Redress Creditors Scheme Outturn			
£'m	Previous low estimate as at September Update ⁽¹⁾	Estimate as at date of this report	Variance
Shareholder contribution - pre Scheme	3.6	3.6	0.0
Shareholder Contributions - post Scheme	16.9	16.6	(0.3)
Total Shareholder Contribution	20.6	20.2	(0.4)
Redress Claims - pre effective date	(0.7)	-	0.7
Scheme Costs - pre effective date	(1.8)	(1.9)	(0.1)
Scheme Costs - post effective date	(4.5)	(6.0)	(1.5)
Available to Redress Creditors	13.6	12.5	(1.1)
Redress Creditors	97.0	125 or higher	-
Estimated return to Redress Creditors	14 p/£	Up to 10 p/£⁽²⁾	(4)p/£ or higher

Note: (1) The September Update is based on the estimated outturn analysis in the August Report, but with the Redress Creditor claim value adjusted by ICL to reflect changes highlighted in ICL's September 2019 update to creditors (attached at Appendix 1).

(2) 10 p/£ represents the highest potential return to creditors based on a Redress Creditors claims of £125 million or higher. An indicative range has been presented due to material uncertainties around the Uphold Rate, resulting from ICL's continued testing of its decision engine.

Key observations

Redress Claims (continued)

- ICL's collect out of its assets pre-Scheme Effective Date was better than planned, and therefore ICL was able to meet these costs out of its own resources. Consequently, ICL management has not drawn upon the Shareholder Contribution to pay these £0.7 million costs.

Scheme Costs

- ICL previously forecast total Scheme Costs of £6.3 million. However this has now been revised up to £7.9 million, consisting of £1.9 million incurred pre Scheme Effective Date and £6.0 million thereafter. Please refer to page 10 for a detailed breakdown of these variances.
- The Scheme Costs to be incurred post effective date are expected to be higher than previously estimated as unforeseen costs have come to light.

Redress Creditor claims

- The decision engine is still being tested, however early estimates indicate that total Redress Creditors claims could be £125 million or higher.
- This figure will be refined in future updates as more clarity regarding the inputs becomes available:
 - Uphold Rate - Any increase in the Uphold Rate has a material impact on the eventual Redress Creditors balance and therefore on the actual p/£ return. **Any further increase in the Uphold Rate could potentially reduce the return to significantly less than 10p/£.**
 - Number of Claimants - Management have stated that they believe the total number of claimants at this stage to be in line with the 10% quoted in the September Update rather than the up to 20% also quoted in the September Update.
 - A combination of Email and letter reminders of the Bar Date will be sent to Redress Creditors in due course. The Company expects an uptick in claims both post receipt of the reminders, and in the run up to the Bar Date.

(Indicative) Redress Scheme Costs

(Indicative) Redress Scheme Costs			
£'m	Previous estimate as at August Report	Estimate as at date of this report	Variance
Mailing & Advertising	1.0	1.3	(0.3)
Advisory	1.1	1.8	(0.7)
Operational	0.6	1.3	(0.7)
BAU Complaint Handling	-	0.9	(0.9)
IT Scheme Portal	1.9	2.3	(0.4)
Scheme Supervisor/Adjudicator	0.3	0.4	(0.1)
Complaints	-	-	-
Contingency	1.4	-	1.4
Total Redress Scheme Costs	6.3	8.0	(1.7)

**Key observations****Redress Scheme cost breakdown**

- Mailing and advertising costs are exceeding expectations as the number of customers with invalid email addresses is higher than anticipated. Initial estimates assumed emails would be sufficient for c.75% of customers; however this transpired to be c.50%. As a result, this led to a greater number of letters being sent and a corresponding increase in associated costs.
- Advisory costs are higher than expected as additional work arose that was beyond the scope of the estimated fees. The extension of scope relates to legal advice in relation to regulatory matters, disputes and litigation against ICL. In addition, financial advisory cost estimates have now been revised to reflect the complexity of the Scheme.
- Operational costs are now forecast to be £1.3 million, an increase of £0.7 million from the August Report, primarily driven by higher than expected headcount.
- BAU complaint handling costs are higher than the original budget as ICL expected to cease complaint handling earlier than it did. Additional costs were incurred to administer these complaints. In addition, the BAU complaint handling decommissioning process proved more difficult than first planned. These costs have been apportioned between both Redress and Non-Redress as they relate to the whole business pre-Scheme.
- IT Scheme portal costs are due to be £0.4 million higher than previously estimated as the IT build took longer than planned.
- The original budget contained a general contingency of £1.4 million for unbudgeted costs. This is offset against the total variance to budget, and is therefore now fully utilised.



Non-Redress Creditors

Scheme Creditor Update

Non-Redress Creditors

Non-Redress Creditors Scheme Outturn			
£'m	Previous estimate as at August Report	Estimate as at date of this report	Variance
Unsecured loans	2.9	1.9	(1.0)
Stock	0.5	1.3	0.8
Total asset realisations	3.4	3.2	(0.2)
Less: Agents fees	(0.0)	(0.1)	(0.1)
Less: Scheme Costs	(0.4)	(1.0)	(0.6)
Total Scheme Costs	(0.5)	(1.2)	(0.7)
Net funds available to Unsecured Creditors	3.0	2.1	(0.9)
Non-Redress Creditors			
Trade creditors	(5.6)	(5.6)	-
Intercompany creditors	(2.2)	(2.2)	-
FOS	(3.0)	(3.0)	-
Landlord claims	(12.3)	(12.3)	-
Redress claims	-	-	-
Employees	-	-	-
Total Non-Redress Creditors	(23.1)	(23.1)	-
Surplus/(Shortfall) to Unsecured Creditors	(20.1)	(21.0)	(1.0)
Estimated dividend to Unsecured Creditors	13.2%	10.0%	(3.2)%



Key observations

Management have updated their estimate of the outturn for Non-Redress Creditors from the August Report, based on actuals in Q4 2019 and reforecast numbers for the period to 31 March 2021 (anticipated Scheme end date).

ICL currently estimate that there will be a Non-Redress Scheme dividend of 10.0p/£ available to Non-Redress Creditors, which represents a 3.2p/£ reduction from the 13.2 p/£ estimated in the August Report.

Please note that as per Clause 4.1.2 of the Scheme, if the pence in the pound distribution for Non-Redress Scheme Claims is greater than the pence in the pound distribution for Redress Scheme Claims, an equalisation will take place. This would result in Non-Redress monies being transferred to Redress Creditors to ensure that the distributions are at an equal rate. If this occurs, the Non-Redress Scheme Outturn would be reduced.

Realisation of assets

- Expected collections on unsecured loans are £1.0 million lower than the £2.9 million presented in the August Report. This resulted from £0.1 million lower than expected collections to date, and a downwards revision of forecast collections by £0.9 million. The reforecast number prudently does not take in to account the potential upside from the eventual sale of the unsecured loan book, which, if achievable, may bring the total realisation of the unsecured loan book to £2.9 million.
- Anticipated stock realisations have improved by £0.8 million from the August Report, resulting from optimisation of the sales strategy. Stock collections outperformed budget by 28% in Q4 2019 reflecting the new strategy.

Scheme Costs

- Agents fees have increased, reflecting the 10% commission paid to auction houses on higher stock realisations.
- Anticipated Scheme Costs are £0.6 million higher than the August Report due to unforeseen costs (£0.2 million) and pre-Scheme Costs reallocated from Redress (£0.4 million). See the Redress section for further details.

Non-Redress creditors

- No update has been made at this stage to the anticipated £23.1 million unsecured creditor claims shown in the August Report. Please refer to page 12 for a breakdown of claims received in the period to 8 January 2020.

Non-Redress Creditor claims progress

Non-Redress Claims received to 8 January 2020				
£'m	Previous estimate at August Report	Claims received as at 8 January 2020	Remaining claims not yet submitted	% Complete
Trade creditors	5.6	0.9	4.7	16%
Intercompany creditors	2.2	1.9	0.3	87%
FOS	3.0	-	3.0	-
Landlord claims	12.3	2.1	10.2	17%
Non-Redress customers	-	-	-	n/a
Total Non-Redress Claims	23.1	4.9	18.2	21%



Key observations

Of the £23.1 million total expected Non-Redress Claims as per the August Report, ICL have received £4.9 million as at 8 January 2020, representing 21% of forecast claims.

The total expected creditor claims remain unchanged based on claims to date.

The Company expects an uptick in claims in the run up to the Bar Date.



Appendix

Appendix 1 – ICL’s September 2019 Update to Redress Creditors

September Update to Redress Creditors published on the ICL website on 13 September 2019:

Over the previous weeks, we have been refining how we will assess complaints made to us in the Scheme, and there have been some important developments, which might affect how much consumers might get in the Scheme.

Loans over 6 years

We will investigate all complaints, including those which are over 6 years ago. We will do this automatically, and we won’t ask customers why they haven’t complained until recently, as we used to do in our complaint handling before the Scheme.

In our estimates for what consumers might get in the Scheme, we made some assumptions about how many customers with loans older than 6 years would have these loans looked at. Now that we are looking at all loans for customers, this reduces what we expect consumers to receive if they have a successful claim.

Making this change could reduce our “base case” expected outcome from 80 p/£ to 44 p/£, as we now expect more customers to have more loans considered.

Simplifying our complaints handling process

We have a fixed amount of money that we can spend on complaints. We want to spend as much of that money as possible on compensation, and as little as possible on administration. We have developed a process that doesn’t need customers to answer any questions, nor provide any documents or evidence. In order to make this process give fair outcomes, we will give “the benefit of the doubt” to customers and uphold a loan (where once we used to ask for bank statements).

We expect to see more cases being upheld that in our normal complaints process. When we change the number of complaints we expect to uphold to a higher value than what we originally thought, the expected outcome further from 44p/£ to 27p/£.

How many customers will respond?

The more people who respond, the more people will share the compensation money available. We created our base case by assuming that around 10% of people will respond. We used to have lots of brands, and we sold loans online and in our store network. The complaints that we receive are not spread equally across our brands and stores, and so it is difficult to predict how many people will respond.

If double the people respond that we assumed in our base case, then the expected outcome for customers could fall from 27p/£ to **14p/£**.



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