Mizzen Mezzco Limited

Annual Report and Financial Statements

for the year ended 31 December 2018

Registered Number: 08179245

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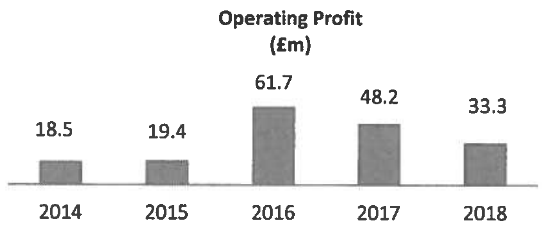
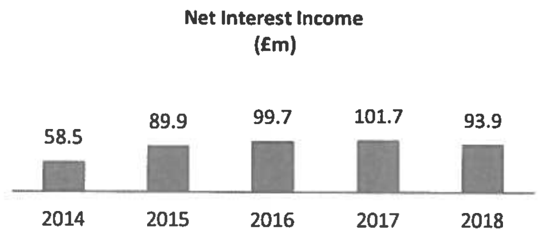
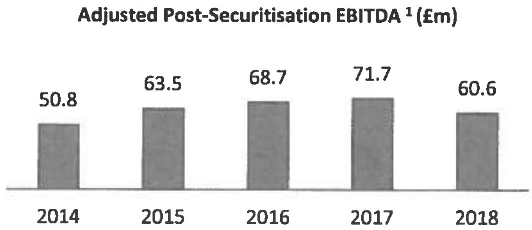
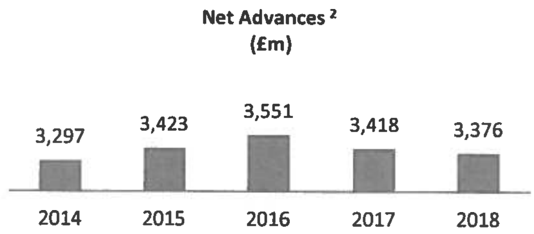
FINANCIAL HIGHLIGHTS

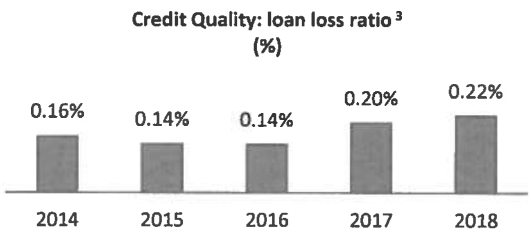
Primarily because of the broker consolidation activity in 2017 the Group's net advances reduced by 1.3% to £3,376 million. Operating Profits reduced by £14.9 million to £33.3 million, principally due to higher administration costs as a result of continued strategic investments in the core business and additional expenditure on regulatory compliance. This year, our Adjusted Post-Securitisation EBITDA[1] reduced by £11.1m to £60.6 million. The financial performance of the Group is discussed in more detail on page 17.

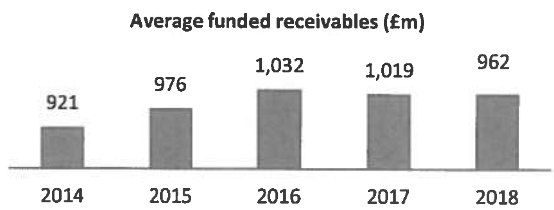


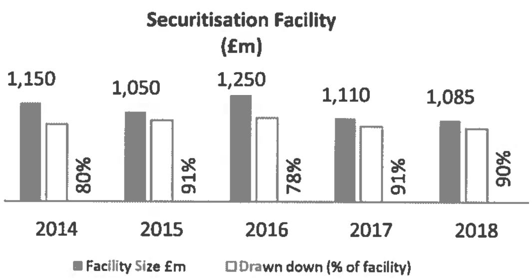


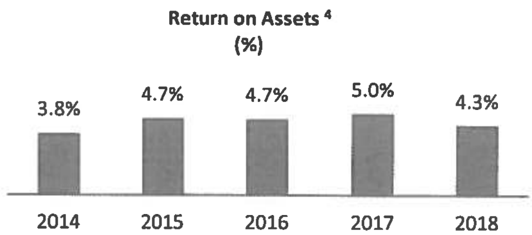












1. Adjusted Post-Securitisation EBITDA is a profit measurement that excludes certain non-cash items, one-off expenses, tax and interest, other than the interest costs incurred as part of the Group's securitisation facility. The calculation and a full definition of Adjusted Post - Securitisation EBITDA and its reconciliation to operating profit is shown on page 19.
2. Net advances measures the total value of loans initiated, net of cancellations and mid- term adjustments.
3. The loan loss ratio is calculated by dividing the value of impairment losses recognised as uncollectible by the net advances in the year.
4. Return on assets is calculated as Adjusted Post-Securitisation EBITDA divided by average net loans and advances to customers in the year.
5. A number of these measures are not specifically defined under, or presented in accordance with, IFRS or any other Generally Accepted Accounting Principles and should not be considered as an alternative to profit for the period or any other performance measures derived in accordance with IFRS. The Board believes that these measures give a more rounded indication of the operating performance of the Group.

A: STRATEGIC REPORT

A1: Chief Executive's statement

The Group continues to have a clear strategy and a strong commitment towards sustained business growth, value creation and innovation for the future. The Group's financial performance in 2018 has been impacted by a number of external factors, which include the ongoing impact of market consolidation, the change in the regulatory landscape, a weakening credit environment and a cyber incident. Our Adjusted Post-Securitisation EBITDA in the year was £60.6 million, a reduction of £11.1 million when compared to 2017.

Despite these challenges, we have maintained our position as the market leader for insurance premium finance in the UK and Ireland.

Throughout 2018, we have continued to make changes to our business to meet our partners' and customers' needs, and we continue to adapt to changes both in the markets where we operate, and in the regulatory and political landscape. We maintain a strong financial position, continue to generate strong cash flows and are investing in our core business. We will continue to focus on growth by being the trusted finance provider in all of our chosen markets.

Leadership

During the year, we made three important appointments to the Board and Executive Committee.

In May 2018, we announced that Nayan Kisnadwala – Group Chief Financial Officer would be leaving the business. Andrew Chapman, Head of Treasury and Investor Relations, supported the role in an interim capacity and in September 2018 was appointed as the Chief Financial Officer.

In November 2018, we announced that Charlie Cutler had resigned as General Counsel and Company Secretary. Following this resignation, we have consolidated the legal, risk and compliance functions under the leadership of a Chief Risk Officer, Andrew Smith, who joined the business in October 2018.

In January 2019, we also announced that Simon Moran, Chief Sales and Marketing Officer would be joining the Board as a Non-Executive Director. We would like to thank Simon for over twenty years' service to Premium Credit and look forward to him supporting the Group in a different role going forward.

In addition to the above appointments, Elizabeth Annys, Head of Legal, was appointed as Company Secretary.

Market

As in recent years, the premium finance market continues to evolve at a rapid pace, particularly in respect to market consolidation and regulatory change. We have continued to renew and strengthen our relationships with intermediaries, retaining all material contracts with the exception of one Top 10 broker, as well as acquiring new business relationships, including partners such British Gas and Staysure, which will begin trading in 2019. A number of our Retail insurance brokers have experienced weaker trading performance, impacted by competitive Personal Lines markets and changing insurance capacity.

In premium financing, we have seen various new market entrants, but they are still to make any material impact on the market.

In our Specialist Lending business, we are building stronger relationships with Credit intermediaries for the funding of Personal and Commercial tax loans, and we have launched an Appointed Representative network and Non-Recourse school fee product for fee-paying schools.

In August 2018, we implemented a further market driven base rate change.

Technology

The majority of our lending administration is integrated into our partners' point-of-sale systems. Our technology allows straight through and automated processing, which reduces manual intervention and creates significant cost savings. We process over 25 million direct debits each year, which requires stable and resilient operating platforms.

Our continuing investment in technology is focused on delivering digital sales processes and streamlined customer journeys, enabling all our intermediaries to consistently present finance options at the point of sale, irrespective of channel, to acquire and retain more customers, while meeting regulatory and compliance expectations. To provide improved efficiency for our intermediaries, we have continued to improve our integrations and associated services, as well as improving our digital applications and portals for customers to self-serve, particularly through mobile devices.

Our focus has been on providing a resilient and highly available IT service, whilst also delivering significant change.

Cyber Incident

In September 2018, we were subject to a malicious and targeted cyber-attack, which although we subsequently recovered from, did cause operational and service impacts for our intermediaries and customers. After the incident, we recovered and restored our systems, and following our immediate response, we have become a more resilient business due to the event. We will continue to invest in upgrading our IT infrastructure, increase our operational resilience and IT security, and carry forward the cyber lessons learnt into 2019 planning, supported by third-party assurance. This will be implemented alongside our enterprise wide change programme that is underway to enhance our core digital platforms, provide an efficient back office service, and maintain our regulatory obligations.

UK withdrawal from the European Union

Through 2018, we have not seen any material impact arising from the UK decision to leave the European Union, other than the slight weakening of the British pound. This has had a positive impact in 2018 for our Irish business. Our underlying service is the provision and financing of insurance premiums; these are often compulsory, such as for product and employer liability, or fleet and car insurance. Our Irish business is independently authorised and regulated by the Central Bank of Ireland (CBI), and so does not depend on EU Passporting. There is significant uncertainty regarding Brexit, and the wider macro-economic impact of the EU referendum, including the impact on credit losses and credit demand, which remains unknown. The Directors will continue to monitor the impact of the UK's exist from the European Union on the business.

Risks

The Group is predominantly exposed to Credit & Counterparty risk, Regulatory risk (including conduct and financial crime risks), Operational risk, IT Security risk, Financial risk and Business risk.

Credit risk is considered to be increasing, with ongoing weaknesses in some sectors of the UK economy. Given that much of our lending by volume is on a recourse basis to the producer / intermediary, the underlying obligor (borrower) credit experience continues to be broadly positive. Counterparty risk has been mitigated by continued robust counterparty underwriting and governance oversight. There have been no counterparty failures during the year. There have been two insurer failures, but with only nominal losses being forecast due to cover through the Financial Services Compensation Scheme, and our experience of having dealt with insurer failures in the recent past.

Operational risks are identified, managed and mitigated through ongoing risk management practices.

IT Security and mitigation of Cyber risk will continue to be a key priority. This will continue to bring new tools and technologies into play and is essential for our long-term strategy and customer outcomes, but presents new operational risks in relation to business continuity and recovery.

Financial risk is reducing, with our securitisation programme providing access to sustainable funding and the Master Trust structure supporting our funding diversification. The Base Rate increase in August 2018 has led to an increase in LIBOR, which has had an impact on our margins, prior to offsetting actions. The Group continues to monitor the impact of the Brexit negotiations and potential impact on foreign exchange and interest rate risks.

The Board oversees our risk exposure through a Risk Management Framework designed around three lines of defence methodology. A full description of the principal risks facing the business, together with how they are managed, is set out on page 33.

Regulatory Landscape

Premium Credit is regulated by the Financial Conduct Authority (FCA) in the UK and the Central Bank of Ireland (CBI) in Ireland. As reported in the 2017 accounts, the FCA has issued clarification on the affordability requirements for firms operating in our sector - the changes include a number of requirements which the Group had already implemented through its ongoing regulatory engagement; work continues on those that remain to be addressed. Elsewhere we look towards change around the implementation of the Fifth Money Laundering Directive, the UK implementation of the FCA's Senior Managers & Certification Regime in late 2019 and in Ireland, the CBI's current review of the Consumer Protection Code and implementation of their Consumer Protection Risk Assessment Model. We proactively engage directly (and indirectly) with our Regulators on regulatory developments where we believe it is in the interests of the Group and its customers to do so.

Our People and the Future Outlook

I would like to thank all our colleagues who have contributed to making us the market leader that we are today, and for serving our intermediaries and customers. Our success and continued future growth is dependent on the commitment of our employees and our ability to develop outstanding products and services for our customers. Through our Colleague Opinion Survey, we continue to measure our colleagues' engagement and empowerment, which have both seen an improvement. We continue to make Premium Credit a great place to work. 2018 has continued to be a year of further change, but we can look ahead with confidence, knowing that we can build on this year's investments and innovations.

In 2019, we look forward to consolidating these changes and making progress towards our strategic aims. We remain confident that our strategy and our proven business model will continue to provide long term and sustainable value for our customers, employees, shareholders and intermediaries. We will pursue continued growth in our core markets, expanded relationships with new intermediaries and seek to exploit opportunities within adjacent, high value segments.

Thomas Woolgrove

Chief Executive Officer

A2: Purpose, vision and values

Our Purpose

We enable customers to manage their payments more easily.

Our Vision

To be the trusted finance provider in our chosen markets.

Our Values

Considerate

We act with honesty and integrity and put customer needs at the heart of everything we do.

Collaborative

We work, succeed and celebrate together.

Accountable

We take accountability for our actions, deliver on our promises and proactively learn from our mistakes.

Driven

We passionately strive for excellence and continuous improvement.

A3: Business model

Premium Credit Limited, the Group's principal trading subsidiary, helps almost 2.1 million customers to manage their finances. The Group has a clear strategy to deliver consistent growth and earnings for our shareholders.

What we do

The Group provides instalment finance via our network of intermediaries, to individuals, SMEs and companies in the UK and Ireland. Our intermediary network consists of firms such as insurance brokers, insurance providers, membership organisations, schools and leisure facility providers.

How we do it

We provide loans ('advances') to our end-customers, which are used to pay annual insurance premiums, service fees such as school, professional membership, sports and leisure fees, or business fees and payments. These advances are typically recouped on a monthly instalment basis, usually within less than a year.

Why we have been successful

Our size and long operational history has allowed us to develop an advanced and scalable Information Technology system, which helps us to provide our intermediaries and other clients with funding propositions through regulatory compliant customer journeys. Our scale allows us to efficiently adapt our systems and processes to changes in regulation and customer expectations. We are able to service a high volume of payments and collect amounts outstanding on our advances on a reliable and continual basis. We work with a diverse network of over 2,800 leading brokers, insurers and other intermediaries who offer our financing products to end-customers. We believe we have strong and resilient relationships with our key intermediaries.

Why what we do matters to people

End customers

As the finances of people and businesses in the UK and Ireland are put under pressure due to the macro-economic and political environment, including Brexit uncertainty, and the continued evolution of a convenience-driven culture which is connected 24/7, our end customers are looking for alternative and accessible ways to finance large annual payments and manage their cashflows. These items include critical purchases such as insurance and large one-off business payments, in addition to finance of aspirational and leisure pursuits such as private school fees and golf club membership.

Intermediaries

By outsourcing this vital part of their operating model to us, a third-party finance company, our intermediaries deliver additional services to their customers and benefit from the improved efficiency in their own business models. Our experience and scale enable them to:

- reduce costs
- Increase their market penetration
- improve their cash flow and liquidity
- have more control over their regulatory obligations through our compliant customer journeys

How we generate income

Our income stream derives from a combination of interest income on amounts we have advanced to our customers and fees due for services we provide.

Our market position

We are a UK leader in the financing and processing of instalment services. We have a strong position in the insurance industry, a sector that is characterised by stable and regular annual payments. We continue to use our experience to explore potential expansion into related and adjacent markets.

Our Competitors

Our nearest competitors are other finance providers such as banks and non-bank credit providers. The Fintech era has seen a change in the way that people transact and purchase products, with new entrants occupying a niche position in several segments. However, investment in our IT systems and platforms has streamlined our operating model, enabling us to have much greater capacity to rapidly build bespoke, flexible new products and services. We also see some of the new entrants into the market as potential partners, which could increase the take up of our products.

Our competitive advantage

Whilst there are other key players operating in the market, there are specific elements of our proposition which strongly differentiate the Group:

- Long term strategic partnerships – we are one of only two major providers in the instalment fee lending market in the insurance industry. We have long-established relationships and our expertise is highly valued as part of our overall service proposition, with 9 of our current top 10 intermediaries having worked with us for more than 10 years.

- Technology platform and integration – our Information Technology platform enables point of sale financing and is integrated with our intermediaries' businesses, which improves the efficiency of their operating model. Our system becomes an integral part of their payments processing. We are increasingly offering tools to enable end customers to self-serve, making transactions and servicing as simple as possible and enhancing our customer service.

- Scale and scalability – our efficient and accessible systems process approximately 25 million direct debit transactions in a year on behalf of over 2.1 million customers.

- Deep insurance industry and credit expertise – our financing solutions provide us with multiple layers of credit protection. Our credit loss rate in 2018 averaged 0.22% of our net advances in the year (2017: 0.20%). These loss rates are significantly lower and less volatile than other forms of consumer finance.

- Our innovation, investment in technology and marketing strategy have been critical in changing the way the market operates and maintaining our leading position within it, whilst diversifying our revenue streams through the targeting of additional high value segments.

A4: Strategy

The Group continued to generate significant returns in 2018 despite the various headwinds it faced in the year. The strategic planning processes of the business constantly evaluates new developments in the market and the Group's strategic objectives are revised accordingly.

Our Earnings

The majority of the Group's earnings originate from the financing of insurance premiums. Insurance is an essential product for many borrowers and is often a legal requirement. The business's point-of-sale lending services are highly integrated with its intermediaries' systems, resulting in efficient processing and servicing of it's customers transactions.

The Group has seen an increase in its costs as a result of additional regulatory compliance and rising funding costs. To mitigate the impact of these the business ensures it's cost recovery fees appropriately reflect the additional costs incurred whilst service charges are increased to maintain margins.

Objectives

The business's objectives are to:

1. **Develop and invest in products, service and innovative technology solutions which enable improved finance penetration, strong customer retention, compliant customer journeys, enhanced analytics and reduced distribution costs through increased integration and efficiency.**

The Group continues to invest in its client facing technology to both enhance the quality of the existing product set and develop new services. These enhancements make the organisation easier to do business with and encourage the roll out of its technology solutions across a wider intermediary base.

The Group's dynamic, scalable platforms provide bespoke service solutions whilst delivering against an ever-evolving regulatory environment, providing seamless compliant customer journeys.

The business's Specialist Lending division has launched a Non-Recourse school fee product which isolates schools from bad debt exposure, and has begun marketing a Tax funding product to existing insurance premium customers.

2. **Develop and grow relationships, which add value for our intermediaries and mutual customers.**

The Group's product distribution strategy is primarily intermediary led, delivering market reach alongside cost effective customer acquisition and retention. Its focus is on providing affordable instalment credit which helps individuals and businesses smooth their cash flows. The business believes its chosen markets offer strong margins and sustainable returns whilst being valued by its customers. Lending to a wide customer base means its credit risk is highly diversified.

The business manages, monitors and supports its intermediary partners, via a dedicated team of experienced relationship professionals, ensuring dealings with its mutual customers are ethical, comply with relevant regulatory requirements and are of a consistently high standard. In 2018, the business supported its intermediary partners with capability training, consultancy and marketing analytics, helping them to optimise their performance whilst preparing them for future regulatory and market developments in the industry. This dedicated support for our intermediaries is a key differentiator of the business versus its competitors.

In its Specialist Lending business, it has established an Appointed Representatives network for Schools, allowing marketing and promotion of its School Fee product.

3. Enhance its Operational and IT service capability to improve efficiency and effectiveness, whilst delivering a stable and consistent customer experience.

The Group has looked for ways to improve the consistency and reduce the operational cost of our servicing. It has implemented a new contact centre telephony platform which provides broader functionality via a better level of phone and email service at a reduced cost. It continues to work closely with external outsource partners for the provision of a customer contact centre, loan processing and IT development and run services. Customers are benefiting from updated self-service functionality, making it easier to sign credit agreements, express their marketing preferences and manage their agreements.

The Group has continued to invest in enhancing the functionality of its core loan administration system whilst; increasing system availability by reducing processing times and reducing run cost through the optimisation of interfaces with intermediaries' systems.

The implementation of customer satisfaction scoring through CSAT is allowing the business to measure the quality of its customer interactions and thereby developing best practice and enhancing customer outcomes.

4. Create a strong risk and governance framework, which ensures fair outcomes for customers, complies with regulatory requirements and helps the Group's intermediaries to manage their legal and regulatory obligations

As a financial services institution, regulation is an ever-present factor in the Group's markets. The business's aim is to ensure that it grows at a sustainable rate and minimises any regulatory and conduct risk, both for itself, its intermediaries and retail customers.

Given the high number of customers it serves, the Group will continue to manage its business within its established compliance risk and governance framework and will continue to invest in strengthening its operational processes and controls to ensure fair outcomes for its customers.

In 2018, the Group continued to enhance its approach to affordability, implemented separate UK Credit Agreements for regulated and non-regulated business, along with other process and system changes required for General Data Protection Requirement (GDPR) compliance. As it implemented changes for the Fourth Money Laundering Directive, it has applied a risk based approach to enhanced due diligence and thresholds for AML checks. The Group is close to implementing the Central Credit Register regulatory requirements for Irish Business reporting, a mandatory requirement in Ireland and maintains an active dialogue with CBI to complete this to their satisfaction.

5. To maintain a secure, diverse and stable funding structure

Funding is primarily provided by a £1,084.5 million (2017: £1,109.5 million) securitisation funding facility, which comprises £519.0 million of private banking funding and £565.5 million of public asset backed securities. As at 31 December 2018, £977.9 million was drawn down on this facility (2017: £1,005.2 million).

The Group's securitisation programme comprises a Master Trust (via PCL Asset Trustee Limited) which facilitates the issuance of term notes alongside the private banking facility (the "VFN Facility"). Public asset backed securities totalling £565.5 million were issued in 2017. The reinvestment period end date for the public facilities is June 2020 for £282.0 million and June 2021 for £283.5 million.

In June 2018, the business agreed the extension of the VFN facility issued by PCL Funding I Ltd until June 2021 and reduced the facility size to £519.0 million. The £519.0 million facility is divided into two tranches rated by Moody's and DBRS: £500.0 million Class A and £19.0 million Class B.

6. Secure the most talented staff available in the market and to develop their capabilities

The wellbeing, engagement and development of the Group's employees is critical to its growth. The Group has continued to invest in its people during 2018 as it strives to create the conditions for colleagues to flourish. Tangible benefits are being realised through a reduction in voluntary employee turnover throughout 2018 with a significant reduction in the number of leavers.

The business operates a programme of regular colleague surveys, obtaining feedback which is driving its People plan, with the aim of making the organisation a great place to work and increasing the engagement and therefore performance of its employees. During 2018, there was noticeable improvement in colleague engagement. The programme it is now focused on making further improvements, especially in colleague empowerment and leadership capability.

During 2018, the Group strengthened capabilities in a number of departments by bringing in colleagues with new skills or developing existing colleagues. Examples include sales, financial crime, risk, operations and IT. The business constantly reviews its people capabilities against its business strategy to ensure that it is well placed to deliver business performance.

A5: Principal risks and uncertainties

The principal risks to which the Group is exposed, which could significantly affect its prospects of success, are summarised below:

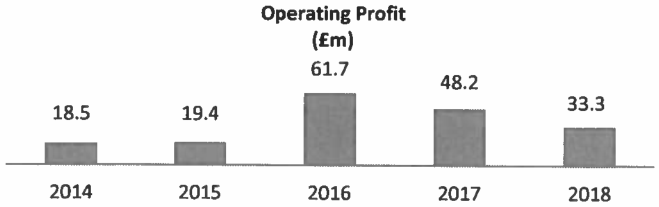
Category	Risk	Description
Regulatory and Conduct	Fair outcomes	Failure to deliver appropriate customer outcomes would damage the Group's reputation and its financial performance.
	Regulatory	Failure to comply with regulatory requirements would risk financial and reputational damage. The Group operates in increasingly highly regulated sectors.
Operational	Process	Manual errors, control failures or internal / external fraud could result in losses.
	People	Losses may arise from errors made by our staff or by staff of third parties we choose to partner with. Losses may also emerge from acts inconsistent with employment or health and safety laws / agreements.
	Systems	Substantial IT systems are required to support the Group's operations and guard against cyber-attack. System failures or major data breaches could result in operational losses, reputational damage or regulatory censure and/or fines.
	External	The potential risk that arises from relying on outside parties to perform services or activities on the Group's behalf.
	Cyber	The risk that a potential cyberattack could impact the existing risks associated with external fraud, data loss, data integrity and data accessibility.
Financial	Interest Rate	Risk of adverse consequences from a change in interest rates that arises due to differences in the timing or basis, of interest rate changes on PCL assets and liabilities resulting in reduced Net Interest Income.
	Liquidity and funding	The risk that insufficient cash will be generated or available from either assets or liabilities or outside sources to meet anticipated current or future funding requirements.
	Foreign exchange	Risk of adverse consequences from a change in foreign exchange rates.
Credit and Counterparty	Customer	Lending may be incorrectly targeted, or customers may become unable to repay debt, exposing the Group to losses.
	Counterparty	The failure of either intermediaries or insurers impacting the ability to recover outstanding balances in the event of customer default.

Category	Risk	Description
Business	Economic and Competition	An economic downturn in either the UK or Ireland may impact our customers' ability to repay amounts advanced as well as reduce demand for the products the Group funds. Profitability could be eroded by competitor activity.

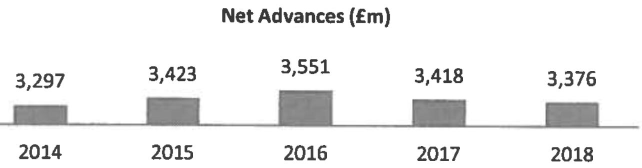
Further details of the risks and mitigations are included in the Corporate Governance section, on pages 33 to 36.

A6: Key Performance Indicators

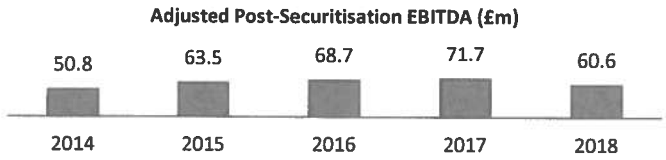
Key Performance Indicator (KPI) — **Description**



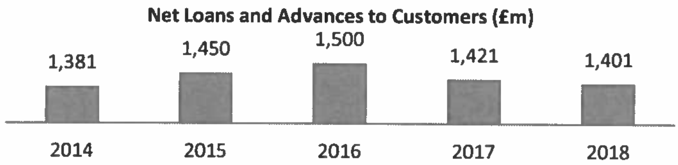
Operating profit measures the Group's total revenue less the total administrative expenses. It excludes any financing income or expense.



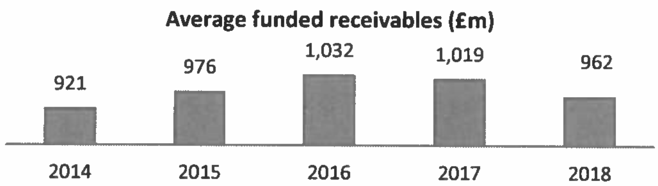
Net advances measures the total value of loans initiated, net of cancellations and mid- term adjustments. This is a lead indicator of future income that will be generated by the business.



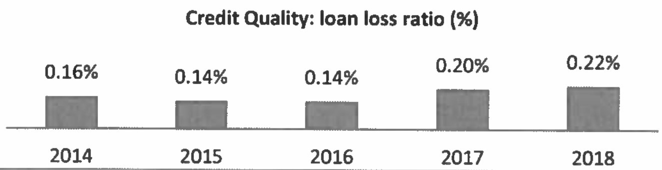
Adjusted Post-Securitisation EBITDA is a profit measurement that excludes certain non-cash items, one-off expenses, tax and interest, other than the interest costs incurred as part of the Group's securitisation facility. The full definition is shown on page 20.



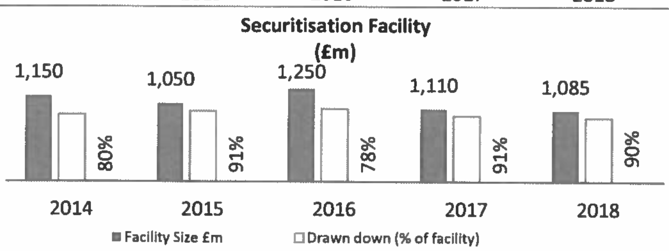
Net Loans and Advances to Customers measures the outstanding loan value at the balance sheet date. This is a lead indicator of future income and cash flows.



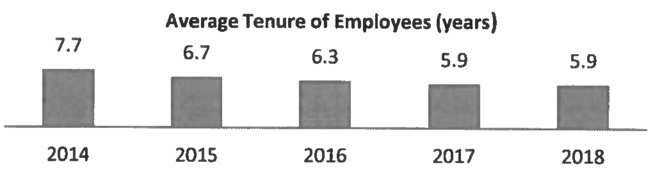
Average funded receivables measures the average outstanding funded principal loan balances for the year. This is a lead indicator of future income and cash flows.



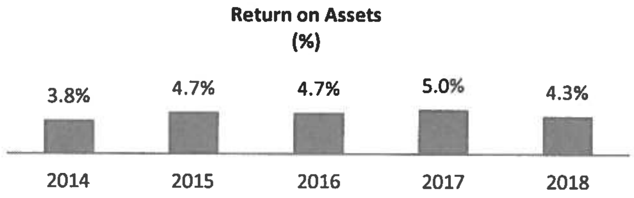
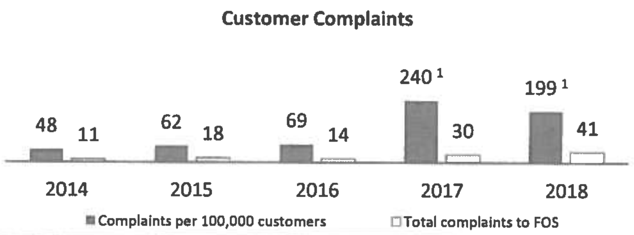
The loan loss ratio is calculated as the impairment loss on customer advances divided by the net advances in the year. It is a measure of the credit quality of the loan book.



This measure shows the level of utilisation of the securitisation facility. It is a key measure of the availability of funding to facilitate growth in the loan book.



The average tenure of employees is a measure of the amount of colleague experience maintained within the organisation.

<table>
<tr><th>Key Performance Indicator (KPI)</th><th>Description</th></tr>
<tr><td>
</td><td>Return on assets is calculated as Adjusted Post-Securitisation EBITDA divided by average net loans and advances to customers in the year.</td></tr>
<tr><td>
</td><td>Reportable customer complaints per 100,000 loans written measures the level of complaints normalised for business volumes. This is supplemented by the total number of Reportable complaints made to the Financial Ombudsman (FOS).</td></tr>
</table>

1. Change in methodology to include written and oral complaints versus only written in 2016 and prior years. The 2017 number has been restated to reflect the changes.
2. A number of these measures are not specifically defined under, or presented in accordance with, IFRS or any other Generally Accepted Accounting Principles and should not be considered as an alternative to profit for the period or any other performance measures derived in accordance with IFRS. The Board believes that these measures give a more rounded indication of the operating performance of the Group.

A7: Business review

A7.1: Financial Review and KPI's

Reporting

The Group's controlling party, Cinven Partners, is a UK private equity fund. Accordingly, the Annual Report and Financial Statements for 2018 have been prepared in accordance with the Walker Guidelines for UK companies in private equity ownership. The consolidated financial statements have been prepared under IFRS and the Company financial statements under UK GAAP (FRS 101) in accordance with the UK Companies Act 2006.

Group Results

	Group Year ended 31 Dec 2018 £m	Group Year ended 31 Dec 2017 £m	Change £m	Change %
Net interest income	**93.9**	101.7	(7.8)	(7.7%)
Administrative expenses	**71.5**	65.9	5.6	8.5%
Operating profit	**33.3**	48.2	(14.9)	(30.9%)
EBITDA[1]	**60.4**	71.3	(10.9)	(15.3%)
Adjusted EBITDA[1]	**74.9**	85.3	(10.4)	(12.2%)
Adjusted Post-Securitisation EBITDA[1]	**60.6**	71.7	(11.1)	(15.5%)

1. Definitions of EBITDA, Adjusted EBITDA and Post-Securitisation EBITDA and a reconciliation from operating profit can be found on page 19.

Key Drivers

The Group's financial performance in 2018 was primarily impacted by a loss of producers in 2017, a short term business disruption due to a Cyber incident, higher costs resulting from regulatory change, and an increase in credit losses in line with the increase in SME insolvency rates. The Group delivered an Adjusted Post-

Securitisation EBITDA of £60.6 million, a decline of £11.1 million. Operating profit reduced by £14.9 million to £33.3million. Key trading points for the year include:

- A decrease in net interest income of 7.7% to £93.9 million (2017: £101.7 million)
- An increase of 8.5% in administrative expenses to £71.5 million (2017: £65.9 million)
- A decrease in net loans and advances to customers (receivables) of 1.4% at year end to £1,400.7 million (2017: £1,420.7 million)
- A reduction in the size of the existing securitisation facility from £1,109.5 million to £1,084.5 million.

Net interest income

The decrease in net interest income of 7.7% was due to a decrease in the average funded receivable balance of 5.6%, together with a short-term reduction in margins as a result of the increases in base rate in November 2017 and August 2018. The reduction in the average funded receivable balance was driven by regulatory and macro-economic changes in the markets in which the Group operates, and the impact of intermediary consolidation and broker losses seen in 2017. Normalising these items, the net advances in 2018 have seen continued strong underlying growth of 5.2% over prior year, highlighting the benefits the Group receives from the investments it has made in developing compliant digital customer journeys.

Administrative expenses

Administrative expenses have increased by £5.6 million to £71.5 million (2017: £65.8 million). This is due to an increase in bad debt write off's and an increase in credit provisions of £3.7 million to £9.3 million (2017: £5.6 million). In addition, the Group incurred a one off expense of £2.8 million as a result of the Cyber incident in September 2018. The increase in credit losses is in line with the increase in corporate insolvencies in the wider economy.

Operating profit and Adjusted Post-Securitisation EBITDA

The decrease in net interest income alongside an increase in expenses has resulted in a reduction in Operating profit of £14.9 million to £33.3 million (2017: £48.2 million). The Adjusted Post-Securitisation EBITDA of the Group decreased by £11.1 million, or 15.5% to £60.6 million (2017: £71.7 million). Adjusted Post-Securitisation EBITDA excludes cost associated with IT initiatives.

Working capital

Loans and advances to customers have reduced by 1.4% to £1,400.7 million at 31 December 2018, reflecting the reduction in net advances. The primary source of funding for these loans and advances is the securitisation facility. Trade payables have increased by 1.2% to £412.8 million which are primarily amounts payable to intermediaries. Overall, changes in operating assets and liabilities have resulted in a cash operating inflow of £50.7 million in the year, which is a reduction from 2017 where it was £108.5 million. This reduction is prior to taking account of changes in funding.

Cash

At 31 December 2018 the Group had a cash balance of £66.1 million, a reduction of 35.3% from 2017 (£102.1 million). The Group made a £50 million dividend payment in 2018 (2017: £49.6 million). Of the year end cash balance of £66.1 million, £29.5 million (2017: £28.7 million) represented unencumbered cash balances and £36.7 million (2017: £73.4 million) encumbered. Encumbered cash represents cash held in the Group's securitisation facility, for the purchase of new receivables or to fulfil the liquidity requirements of the facility.

A7.2: Non-Financial KPI's

Average tenure of employees

The average tenure of employees measures the average length of service across the workforce. There has been a gradual reduction in average tenure of employees in recent years. This is due to higher levels of labour turnover and changes to the organisation design to meet the changing needs of the business. We are pleased to report that the average tenure of 5.9 years has remained static from 2017 to 2018. Evolution of the organisation design has continued, for example outsourcing some operational functions, but the voluntary labour turnover has reduced progressively during 2018 resulting in greater levels of stability. Based on tenure at the end of 2018, there is a good mix of employees with long tenure, and therefore company experience, and newer colleagues who bring external skills to the Group.

Customer complaints

The Group maintains two key performance indicators for customer complaints: complaints it receives directly from customers, which is measured per 100,000 agreements and the number of complaints referred to the Financial Ombudsman Service (FOS). In 2018, the Group received 199 complaints per 100,000 agreements, a material decrease on the 2017 rate of 240 complaints per 100,000 agreements. 41 complaints were made to the FOS (0.002% of the customer base), of which 25 were upheld in favour of the Company, 5 in favour of the customer, with the remaining 11 awaiting outcome.

The Group remains focused on delivering fair outcomes for all customers and has introduced root cause analysis with corrective action tracking during 2018. This has led to the decrease in complaints highlighted above.

A7.3: EBITDA

Reconciliation of Operating profit to EBITDA, Adjusted EBITDA and Adjusted Post-Securitisation EBITDA

	2018 £'000	2017 £'000
Operating profit	**33,282**	48,150
Finance income	**8**	7
Finance expense	**(14,654)**	(14,654)
Profit for the year before taxation	**18,636**	33,503
Interest payable and similar charges	**33,614**	32,121
Depreciation and amortisation	**6,472**	6,142
Loss on disposal of fixed assets	**665**	40
Loss/(gain) on foreign exchange	**310**	(2,563)
Refinancing fees	**676**	2,033
EBITDA	**60,373**	71,276
Transaction costs	**353**	366
Cyber incident costs	**2,802**	-
New IT initiatives and restructuring costs	**11,325**	13,671
Adjusted EBITDA	**74,853**	85,313
Securitisation interest expense	**(14,285)**	(13,655)
Adjusted Post-Securitisation EBITDA	**60,568**	71,658

Definitions of EBITDA, Adjusted EBITDA and Adjusted Post-Securitisation EBITDA

- EBITDA represents profit for the period before taxation, interest payable and similar charges, depreciation and amortisation; the latter includes Securitisation Facility fee amortisation. EBITDA is not specifically defined under, or presented in accordance with, IFRS or any other generally accepted accounting principles and you should not consider it as an alternative to profit for the period or any other performance measures derived in accordance with IFRS.
- Adjusted EBITDA represents EBITDA as adjusted for certain transaction costs, one-time information technology initiatives and other non-operating costs. You should be aware that, as an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA. We may incur expenses similar to the adjustments in this presentation in the future and certain of these items could be considered recurring in nature. The presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.
- Adjusted Post-Securitisation EBITDA represents Adjusted EBITDA less the Securitisation interest expense. In evaluating Adjusted Post-Securitisation EBITDA, we encourage you to evaluate each adjustment and the reasons we consider it appropriate as a method of supplemental analysis. As an analytical tool, Adjusted Post-Securitisation EBITDA is subject to all of the limitations applicable to EBITDA and Adjusted EBITDA.

A8: Sustainability report

The Group remains committed to the long-term interests of shareholders, employees, customers and other stakeholders, which are best served by acting in a socially responsible manner. As such, the Group's aim is to ensure that a high standard of corporate governance and responsibility is maintained in all areas of its business and operations.

A8.1: Employees

The Group recognises that its future success, as in the past, will depend on the loyalty and performance of its employees. The leadership team are committed to creating a culture in which employees are accountable for their work but are engaged and empowered to perform to the best of their abilities. The Group is committed to listening to and acting upon feedback from its employees.

Key people initiatives from 2018 include:

- At the beginning of 2018, a Communications Executive role was introduced. During 2018, there has been increased emphasis on internal and external communication. The impact on colleagues of improving communication has been noticeable and initiatives have included large scale colleague communication events, monthly Town Halls with the CEO, quarterly newsletters, and regular notes to celebrate achievements.
- A colleague engagement survey was conducted in June 2018 and 87% of employees responded. Employee engagement and employee enablement both improved by eight percentage points when compared to 2017. The greatest improvement was in employees' understanding of results expected and the Group's strategic priorities and goals, which improved by 21 percentage points. However, the results from the survey showed that there remains considerable opportunity when compared to general industry norms. Following the survey, the results were communicated to employees and a detailed action plan has been identified based on the survey feedback.
- The Group's management programme, which began in 2017, has continued to evolve and 70 managers or aspiring managers have now completed or are completing the programme. The benefits of the programme to the Group can be seen in the engagement survey results, for example there was an 18 percentage point improvement in employees receiving clear and regular feedback on their work

performance. In addition, development activity is continuing with the senior leadership team and a teambuilding event was held at the end of the year to symbolise the importance of this Group collaborating to advance business performance.

- Another considerable improvement shown in employee feedback has been opportunities presented by the Group for learning and development. In 2018 a Masterclass programme was introduced to improve knowledge sharing across the Group. Over 500 attendees attended over 40 sessions encompassing a broad range of topics including the history of insurance and broking in the UK, systematic thinking and regulation. The programme also covered broader subjects such as mental health and wellbeing and soft skills such as presenting with confidence.

The Group seeks to operate as a responsible employer, whose corporate values promote standards designed to help employees conduct their business relationships. The Group's Code of Conduct was updated in 2018. It is the Group's policy to conduct business in an honest, open and ethical manner, and we have adopted policies governing equal opportunities and diversity, and health and safety. The Group categorically condemns all instances of bribery and corruption, harassment, bullying and discrimination.

The Group is committed to employment policies which follow best practice on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group.

Composition of the workforce

We have over 400 employees working in the UK and Ireland. We employ individuals with diverse backgrounds and the table below shows our gender diversity at year-end:

	2018		2017	
	Men	**Women**	Men	Women
The Board	100%	-	100%	-
Senior Management	84%	16%	82%	18%
Other Employees	53%	47%	52%	48%
Total	54%	46%	54%	46%

Equality and diversity

The Group is committed to promoting equality. Decisions about recruitment, selection, training, promotion or any other aspect relating to a person's employment with the Group are made regardless of gender, sexual orientation, disability, marital status, age, race, religious or political beliefs. During 2018 all employees attended training on Dignity at Work and Unconscious Bias. The training was well received and provoked thought and discussion amongst the workforce.

In April 2019, the Group published its second set of gender pay gap data. The table below shows the overall mean and median gender pay gap based on hourly rates of pay at the snapshot date (5 April 2018). It also captures the mean and median difference between bonuses paid to men and women in the year up to 5 April 2018, i.e for the 2017 performance year (bonuses are normally paid in February).

	Difference between men and women	Difference between men and women
	Mean	Median
Hourly rate (this is a prescribed calculation based on fixed pay)	43%	43%
Bonus amount	65%	59%

Note: The calculation behind the gender pay gap is not the same as equal pay.

The underlying reason behind the gender pay gap is predominantly due to the lower representation of women in senior leadership positions and IT roles within our business. The bonus gap is also affected by lower representation of women in sales roles. The Group is confident that it does not have any processes or practices which would see people being paid differently due to their gender.

The Group pays equal pay for equal work and therefore addressing the gender pay gap is about increasing the proportion of women in more highly paid roles. We are pleased to report that all four metrics have improved compared to 2017. The mean gender pay gap of hourly rate has reduced by 13%, the median gender pay gap of hourly rate has reduced by 3%, the mean bonus pay gap has reduced by 13% and the median bonus pay gap has reduced by 18%. The main factors driving this improvement have been increased tenure of women in the upper quartile and increased representation of women in upper middle quartile which has grown by 12%.

Human Rights

The Group respects human rights as defined under the European Convention on Human Rights.

The Group published its statement on Modern Slavery during 2018 in accordance with the requirements of the Modern Slavery Act 2015. There have been no alleged breaches of the Modern Slavery Act during 2018.

Health and Safety Policy

The Group's health and safety policy is designed to maintain a healthy and safe working environment, and to ensure the health, safety and welfare of all its employees and the general public. The Health and Safety Policy was updated during 2018. There were no significant incidents in the workplace during 2018.

Employee Relations

The Group seeks to operate as a responsible employer and has adopted corporate values to promote standards designed to help employees in their conduct with one another and business relationships. Policies in place support equal opportunities and diversity, health and safety, and anti-bribery and corruption.

It is the Group's policy to conduct business in an honest, open and ethical manner. A zero-tolerance approach is taken to bribery and corruption, harassment, bullying and discrimination.

The Group operates competitive reward and benefit programmes, offers appropriate training and personal development programmes, and encourages the recognition of outstanding performance. The Group embraces continuous development of individuals and teams and provides schemes to enable all staff to participate directly in the success of the Group.

Internal communications have been enhanced providing more detailed information and understanding for staff on the progress and development of the Group. Staff engagement has been increased through the establishment of staff social committees, run by the staff for the staff.

The Group has an established whistleblowing framework which enables employees to raise issues when they feel it's appropriate, and which ensures that no employee making such disclosure will suffer any consequent disadvantage. There were no whistleblowing incidents during the year 2018.

A8.2: Environment

The Group complies with all applicable environmental laws and regulations. We are committed to the reduction of physical waste within the business through improved recycling. We encourage the use of mobile devices, and projectors and screens in meetings. We continue to invest in digital solutions that encourage our customers to adopt "e-signing" for credit agreements and to use online portals to monitor and manage their accounts. During 2018, technological developments have enabled a substantial reduction in printing and postage from the Head Office, thus reducing the carbon footprint. In addition, during 2018 the number of office bins was reduced resulting in an increase in recycling. Also, during 2018 there have been activities to reduce the use of single use plastic in the office.

The Group operates out of two main offices located in Leatherhead and Dublin and distributes its products through a network of intermediaries. There is consequently an amount of business related travel between sites and to our intermediaries' offices. The Group has begun to measure this impact, seeking wherever possible to minimise this through the use of alternative technologies. It continues to review all activities to identify opportunities for reducing our carbon footprint.

A8.3: Corporate social responsibility

Supporting the community

The Group is working actively with industry bodies, regulators, and other relevant stakeholders to ensure its services are relevant to disadvantaged and financially excluded people and communities.

During the year, the Group made donations of £12,000 (2017: £9,229) to charitable causes. The Group made no political donations during the year (2017: £Nil).

We have an active Corporate Social Responsibility ("CSR") committee, comprises internal volunteers who represent the whole business at monthly meetings to monitor our progress. The team works closely with the local community and charities and encourages staff to support and participate in local community activities. We currently have a number of formal initiatives underway in which our employees have been making a difference to our local communities. These include:

- Company Fundraising – supporting local community organisations, and holding regular fundraising days, supported by Company-matched funding.
- Individual Fundraising – individual employees and groups of employees participate in fundraising activities outside of work and the Company supports by matching funds raised.
- Donations – donated Easter and Christmas gifts to local disadvantaged children.

A9: Approval of Strategic Report

Section A of this Annual Report comprises the Strategic Report for the Group, which has been drawn up and presented in accordance with, and in reliance upon, applicable English Company law, in particular Chapter 4A of the Companies Act 2006. The liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

It should be noted that the Strategic Report has been prepared for the Group as a whole, and therefore gives greater emphasis to those matters which are significant to the Group and its subsidiaries.

Approved by the Board on 29 April 2019 and signed on its behalf by:

On behalf of the Board

Thomas Woolgrove

Director

B: GOVERNANCE

B1: Board of Directors

Directors during the year and up to the date of signing the financial statements are shown below:

Directors of Mizzen Mezzco Limited

Name	Title
Thomas Woolgrove	Director and Chief Executive Officer
Anthony Santospirito	Non-executive Director *(appointed 18 June 2018)*
Andrew Chapman	Director and Chief Financial Officer *(appointed 22 October 2018)*
Nayan Kisnadwala	Director and Group Chief Financial Officer *(resigned on 18 June 2018)*

Directors of Premium Credit Limited

Name	Title
Colin Keogh	Chairman
Thomas Woolgrove	Director
John Reeve	Director
Peter Catterall	Director
Maxim Crewe	Director
Anthony Santospirito	Director
Chris Burke	Director
David Young	Director
Nayan Kisnadwala	Director *(resigned 18 June 2018)*
Andrew Chapman	Director *(appointed 3 January 2019)*

Brief description of Directors' business experience and qualifications:

Colin Keogh - Non-executive Chairman (PCL)

Colin Keogh, Non-executive Chairman of Premium Credit Limited, the Group's trading subsidiary brings a wealth of experience to the role having spent his career in financial services, principally at Close Brothers where he worked for 24 years. During that time, he held a number of senior management and board positions and was Chief Executive Officer from 2002 until 2009. He has an MA in Law from the University of Oxford and an MBA from INSEAD. Since leaving Close Brothers, he has held a number of non-executive directorships in a wide range of sectors, including the London listed retail bank Virgin Money and Hiscox Limited the FTSE 250 insurance company.

Thomas Woolgrove - Chief Executive

Before becoming Chief Executive, Tom was Interim Deputy CEO at OakNorth Bank, a new challenger bank, and Interim CEO of Flood Re, the new industry led reinsurance vehicle for safeguarding affordable UK flood insurance. From 2010 - 2014, as Managing Director, UK Personal Lines, he led Direct Line Group's largest business unit and played a key part in the successful Direct Line Group IPO in October 2012. At Lloyds Banking Group and HBOS, he held various Managing Director roles in both banking and insurance, and was a strategy consultant at Gemini Consulting, part of the Cap Gemini group. Tom is a Board member of the Finance and Leasing Association and chair of its Consumer Finance Division management committee. He is a past President of the Chartered Insurance Institute and a former member of the Association of British Insurers General Insurance committee.

He holds an MBA from the University of Chicago Booth School of Business, where he was a Fulbright scholar, and a Master's degree in Engineering and Management from Oxford University.

Andrew Chapman – Chief Financial Officer

Andrew Chapman was appointed as Chief Financial Officer of PCL in October 2018 He joined Premium Credit in 2004, originally within the Financial Planning & Analysis team and, during 2013, he began heading the Treasury & Investor Relations team. Andrew has had many achievements at Premium Credit but a notable highlight was his role as business lead on the Asset Backed Securitisation (ABS) transaction which won the prestigious IFR Award for EMEA Structured Finance deal of the year in 2017.

He has worked for the last six years under ownership by Private Equity as a key member of the value creation team. Prior to joining Premium Credit, Andrew worked for Close Premium Finance for four years as Financial Controller. Andrew completed his training and qualified at RBS and he now holds FCCA status.

Peter Catterall - Non-executive Director and representative of Cinven Partners LLP

Peter joined Cinven Partners LLP ("Cinven") in 1997 and is a partner in the Financial Services and Consumer sector teams. He has been involved in numerous transactions at Cinven, including with Partnership Assurance Group plc, Avolon Aerospace Leasing Limited and The Gondola Group Limited.

Maxim Crewe - Non-executive Director and representative of Cinven Partners LLP

Maxim joined Cinven in 2006 and is a member of the Consumer Sector team and the UK and Ireland regional team. He has been involved in a number of transactions, including Avolon, Guardian Financial Services, Gala Coral, Partnership and Premium Credit Limited. Previously he worked at Citigroup, where he was involved in corporate finance within the European Retail and Consumer Group. Maxim has an MA in Politics, Philosophy and Economics from Oxford University.

Anthony Santospirito - Non-executive Director and representative of Cinven Partners LLP

Anthony joined Cinven in 2011 and is a member of the Business Services Sector team and the UK and Ireland regional team. Previously, Anthony was an Associate at Morgan Stanley in the Investment Banking Division, working across a range of sectors including media, mining, financial services, retail and utilities. Anthony graduated from Oxford University with an MA in Mathematics.

John Reeve - Non-executive Director

John Reeve was appointed a non-executive Director of PCL in 2012. Prior to that he served as Chairman and Chief Executive Officer of Willis Group PLC, a multinational risk advisor, insurance brokerage and reinsurance brokerage company. John completed a five year tenure there from 1995 to 2000, during which a consortium of investors (including six insurance carriers) led by private equity sponsor Kohlberg Kravis Roberts acquired the company in a leveraged buyout. John retired from his executive functions in the year 2000. John was CEO of Sun Life Assurance Society PLC between 1987 and 1995, and a former Board member of the Association of British Insurers and International Insurance Society Inc. He retired from his position as Chairman of Temple Bar Investment Trust PLC in May 2018. He is a Chartered Accountant and a Companion of the Chartered Management Institute.

Chris Burke - Non-executive Director

Chris Burke is a former Managing Director of Research in Motion across Europe, Middle East and Africa. Chris has had a distinguished career in telecommunications and technology. From 2001 to 2004, he held the position of Chief Technology Officer at Vodafone UK, responsible for all their technology and product architecture. He is currently chairman of MusicQubed and Navmii, and holds board positions with Dialog Semiconductor, Dtex and Fly Victor. Chris graduated from Acadia University with a Bachelor's degree in Computer Science.

David Young - Non-executive Director

David Young joined the Group as a Non-executive Director in January 2016. Having qualified both as a Chartered Accountant and Chartered Tax Adviser, and following an early career in investment banking, he became Finance Director, Chief Operating Officer and latterly Chief Executive of a quoted insurance broking group. Since 1999, he has specialised in being a Non-executive Director of businesses in the insurance, consumer finance and investment markets, particularly those needing to respond to changing financial services regulations and those owned by private equity. He is also a Non-executive Director and Audit Committee chair of Watchstone Group Plc, Key Group and other private companies.

B2: Executive Committee

Members of our executive committee during the year and up to the date of signing the financial statements, unless otherwise stated, are shown below:

Name	Title
Thomas Woolgrove	Chief Executive Officer
Andrew Chapman	Chief Financial Officer (appointed October 2018)
Nayan Kisnadwala	Group Chief Financial Officer (resigned June 2018)
Simon Moran	Chief Sales & Marketing Officer *(announced in January 2019 as moving up to be appointed to the Board as Non-Executive Director, subject to regulatory approval)*
Roger Brown	Commercial Director
Charlie Cutler	General Counsel *(resigned November 2018)*
Andrew Smith	Chief Risk Officer *(appointed October 2018)*
Duncan Gray	Chief Information Officer
James Radford	Chief Operating Officer
Jill Tennant	HR Director

Business experience and qualifications of the executive committee who are not Directors at the date of signing the financial statements:

Simon Moran – moving up from Chief Sales & Marketing Officer to Non-Executive Director, subject to regulatory approval

Simon Moran joined us in 1998 as Sales & Marketing Director. In March 2005, Simon was appointed Chief Sales & Marketing Officer with overall responsibility for all insurance premium financing business development. Prior to this, he was Sales & Marketing Director of Transamerica Insurance Finance Company (TIFCO), establishing the model for commercial premium finance in the UK. His skills and experience were first developed in the general insurance sector where he held senior positions in underwriting and sales commencing with General Accident in 1987. In January 2019, it was announced that Simon had moved up to be appointed to the Board as Non-Executive Director, subject to regulatory approval. Simon will continue to input his knowledge, experience and passion into driving the success of the business and will manage a smooth transition to his successor.

Roger Brown – Commercial Director

Roger Brown joined us in January 2013, before which he held senior positions at various companies across the insurance industry. These included Divisional Finance Director at Capita's General Insurance Division from 2010 to 2013; Finance Director at Cullum Capital Ventures, a leading insurance intermediary consolidation group from 2005 to 2010; Director of Close Premium Finance, an insurance premium financing company from 1999 to 2005; Managing Director of Premium Payment Plan, insurance premium financing company, from 1997 to 1999; Operations Director at Transamerica Insurance Finance, a provider of financial services and insurance, from 1994 to 1997, and prior to that an Accountant at Willis Faber. Roger graduated from UCE in Birmingham with a BA in Economics and is a Fellow of the Chartered Institute of Management Accountants (CGMA).

Andrew Smith – Chief Risk Officer
Andrew (Andy) is responsible for Risk, Compliance and Legal aspects of our business.

Andy joined us in October 2018. He worked at KPMG for 20 years and in the latter part of his career there he was Risk Management Partner for the firm's UK Advisory Practice. Subsequently, he was a member of the FCA's Smaller Businesses Practitioner Panel for six years, where he advised on key regulatory matters impacting small businesses. Since then he held a variety of senior risk roles in financial services organisations including Bank of Cyprus UK, the Co-Operative Bank, TD Wealth Management and Auden. Andy brings expertise in risk management, regulated financial services and credit

Andy is a Fellow Chartered Member of the Securities Institute, ICAEW having qualified as a Chartered accountant with KPMG.

Duncan Gray - Chief Information Officer
Duncan joined us in December 2017. Prior to joining PCL, Duncan was Chief information Officer and part of the leadership team at British Car Auctions (BCA) during its transition from private equity ownership to floatation on the London Stock Exchange. Duncan has a wealth of experience in private equity backed organisations. Earlier in his career he was Group Technology Director for Leisure Link, the supplier of gaming and home entertainment services. Prior to BCA, Duncan held the IT Director roles at Selfridges Group and House of Fraser.

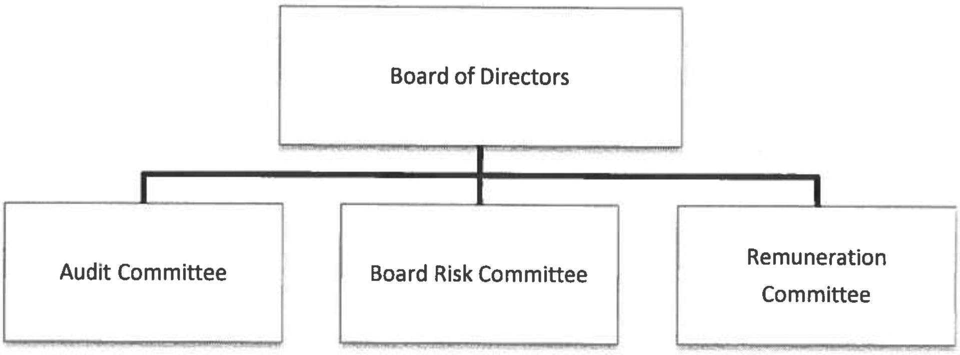
James Radford - Chief Operating Officer
James was appointed in January 2018 and joined us in April 2018, before which he was Chief Executive of the Cheque & Credit Clearing Company. After graduating from Kingston University, James began his career in the Customer Services department of American Express, working on collections and recoveries. He remained at Amex for fifteen years, working his way up through various sales, account director and business planning roles. He then moved to Citigroup as SVP, Retail Banking Card Partnerships. Then he spent five years with Lloyds Banking Group, culminating as Managing Director of the Bank of Scotland Branch network. Since then he has completed a variety of roles, but most relevant was his position as Chief Operating Officer at Aldermore Bank plc. James brings with him a broad range of operational and leadership experience in consumer finance.

Jill Tennant – HR Director
Jill Tennant joined the Group as HR Director in November 2016 and was appointed to the Executive Committee in January 2018. She is responsible for the People Plan and ensures that HR activity supports the business strategy. Prior to joining Premium Credit, Jill worked for Bunzl plc, the successful international outsourcing and distribution group, as Head of HR. Jill began her career at Marks and Spencer where she spent 16 years fulfilling a variety of HR roles.

B3: Corporate governance

B3.1: Board Committees

The Group conducts its trading activities through its wholly owned subsidiary, Premium Credit Limited ("PCL"). The Board has overall responsibility for setting the strategic direction of the business. It has a formal schedule of matters reserved for its consideration and delegates all others to the CEO and the Executive team. It has created three sub-committees to satisfy itself that financial controls and systems of risk management are robust, support effective corporate governance, and discharge the wider range of responsibilities. This framework is detailed below:



Board

The PCL Board meets on average six times during the course of the year and is responsible for determining the Group's strategy and direction. The Board has a schedule of reserved matters.

All Board committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. Directors unable to attend meetings will receive the relevant papers and any comments will be reported to the meeting. Directors have attended a number of ad hoc meetings during the year in addition to the regular Board meetings and have contributed to discussions outside the regular meeting schedule.

Audit Committee

The Audit Committee meets at least four times a year. Its current members are John Reeve (Chair), Maxim Crewe, Anthony Santospirito, Chris Burke, Colin Keogh and David Young, all of whom are non-executive directors. The Board is satisfied that all Committee members have recent and relevant financial experience. Further information on the work of the Audit Committee is provided on page 30.

Board Risk Committee

The Risk Committee comprises David Young (Chair), John Reeve, Maxim Crewe, Anthony Santospirito, Colin Keogh and Chris Burke, all of whom are non-executive directors. The Committee meets four times during the year. Further information on its work is provided on page 31.

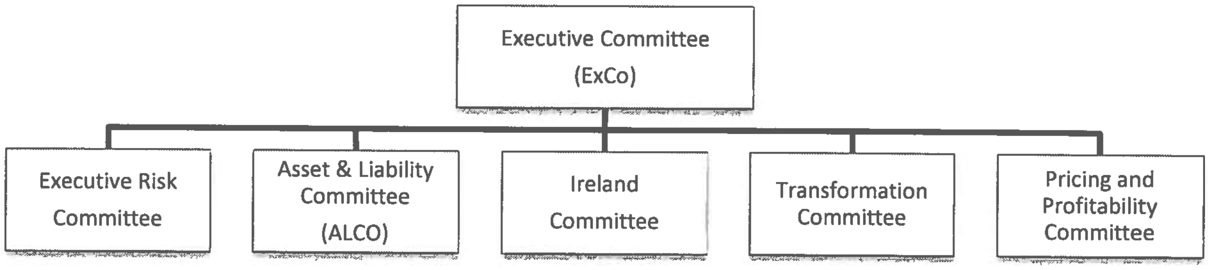
Remuneration Committee

The Remuneration Committee comprises Maxim Crewe (Chair), Peter Catterall, Colin Keogh and David Young (joined in January 2018), all of whom are non-executive directors. The Committee meets twice during the year. Further information on its work is provided on page 36.

B3.2: Executive committees

The Board has delegated day-to-day running of the business to the Chief Executive. The Chief Executive has established the Executive Committee ("ExCo") and its sub-committees to assist in the management of the business, and to implement its strategic aims in an effective and controlled way. The ExCo provides general executive management of the business and facilitates cross-functional communication and liaison. The relevant ExCo member is accountable to the Chief Executive and the Board for managing performance, the identification and mitigation of risk, and for the Group's strategy, long-term plan and annual budgets.

The structure of the Executive Committees reporting to ExCo is illustrated below:



Executive Risk Committee

The Executive Risk Committee comprises all of the Executive Committee members and is attended by heads of the relevant functions. It is chaired by the Chief Risk Officer. The Committee is responsible for:

i) overseeing and monitoring operational risk management and compliance processes;
ii) monitoring of counterparty and conduct risk presented by any trading partner of the Company and monitors conduct risk in relation to the achievement of fair outcomes for customers;
iii) monitoring credit risk exposure and the management of overdue and impaired credit accounts;
iv) making recommendations for credit risk appetite and continuously monitoring performance against guardrails;
v) considering key operational risk information such as loss events, emerging risks and control failures;
vi) overseeing the maintenance of effective systems and controls to meet regulatory and conduct obligations, and for countering the risk posed to the Group by financial criminals;
vii) reviewing the quality, adequacy, resources, scope and nature of the compliance function, including the annual Compliance Monitoring Plan.

Asset and Liability Committee ("ALCO")

ALCO is chaired by the Chief Financial Officer. Its principal purpose is to identify, measure, control, monitor and review the financial risk management of the Group's balance sheet. It is responsible for monitoring all aspects of market risk, liquidity risk and capital adequacy, as well as the treasury policy and control framework.

Ireland Committee

The Ireland Committee is chaired by the Chief Risk Officer. The Committee is responsible for monitoring the sales, financial and operational performance of PCL Ireland. It is also responsible for overseeing and monitoring operational risk management and compliance processes and ensuring that the business operates within the Irish regulatory framework and relevant Group policies.

Transformation Committee

The Transformation Committee is chaired by the Chief Information Officer and is responsible for prioritising and monitoring the progress of the annual IT plan. The Committee also reviews monthly updates on the progress of all IT and Change portfolio projects.

Pricing and Profitability Committee

The Pricing and Profitability Committee is chaired by the Commercial Director. The Committee has oversight of the economic performance of the Company's trading relationships. It is also responsible for the application and oversight of Group's pricing rules & assumptions.

B4: Audit Committee

B4.1: Statement by the Chairman of the Audit Committee

The role of the Audit Committee includes reviewing and recommending financial statements to the Board for approval, monitoring accounting policies and practices for compliance with relevant accounting standards, reviewing significant judgements, assumptions and estimates in the preparation of financial statements, reviewing the scope and results of the annual external audit, and maintaining a professional relationship with the external auditors. In addition, the committee oversee the internal audit function and the internal audit programme.

B4.2: Membership and meetings

The Committee consists of non-executive directors and acts independently of the executive. The Committee meets four times during the year and has an agreed agenda linked to events in the Group's financial calendar. The Chairman normally invites to the meetings executive directors, representatives from its outsourced internal auditors, and a partner or representative from the external auditor.

B4.3: Significant matters addressed by the Committee

The Committee considers a wide range of topics, in particular:

- The program of audit work and relationship with the external auditors including auditor independence;
- Review of the statutory accounts;
- The internal audit programme and the results of internal audit reviews;
- The monitoring of liquidity, funding and loan covenant compliance;
- General Controls over IT and other systems;
- Areas of significant accounting judgement.

In addition to the above matter, in the current year the Audit Committee sought reassurance regarding the third-party assurance programme supporting the remediation activities related to the cyber incident.

B4.4: Internal audit

The Committee considers and approves the remit and scope of this outsourced function and ensures that adequate resources and appropriate access to information are provided. The committee considers the findings from completed internal audit reviews, and monitors progress against agreed actions arising from previous audits. During the year, the Committee considered and approved the Internal Audit plan based upon an assessment of key risks. Ten audits were completed during the year.

B4.5: External audit

The Committee is responsible for assessing the effectiveness of the external auditor and making recommendations to the Board on reappointment. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

B4.6: Whistleblowing

The Group has an established framework which enables employees speak in confidence to report items of concern ensuring that no employee making such disclosure will suffer any consequent disadvantage.

B5: Board Risk Committee

B5.1: Statement by Chairman of the Risk Committee

The role of the Risk Committee includes the oversight and challenge of the Group's Risk Management Framework, including its risk appetite, the monitoring of risk metrics and performance, the recommendation to the Board of any changes to risk appetite and the assessment of any future risks. The Committee also oversees the arrangements relating to regulatory compliance.

B5.2: Membership and meetings

The Committee consists of directors and non-executive directors and acts independently of the executive. The Committee meets four times during the year and has an agreed agenda linked to events in the Group's financial calendar. The Chairman normally invites to the meetings executive directors and specialists to attend for specific items or to make presentations.

B5.3: Significant matters addressed by the Committee

The Committee is a sub-committee of the Board and is responsible for reviewing, reporting its conclusions and making recommendations to the Board on matters relating to:

- The risk management framework deployed;
- Risk appetite framework deployed;
- Compliance with legislation, regulation and internal policy;
- Management of assets and liabilities, including liquidity and funding and capital management;
- The Lending portfolio and associated credit policy;
- Matters arising out of PCL's operations; and
- PCL's ethical and business standards.

The Committee has paid particular attention during the year both before and after the Cyber incident to the ability of the Group to withstand, detect and recover from threats to the security of information it holds and to compliance with the General Data Protection Regulation which came into effect during the year.

B5.4: Risk management

The PCL Board operates with a schedule of reserved matters and a delegation of authority to the CEO and the Executive Committee. PCL has a comprehensive framework for managing these risk classes effectively and ensuring that the business operates within regulations and its risk appetite.

The Board has overall responsibility for determining the Group's strategy and related risk appetite. The Statement of Risk Appetite determines the type and extent of risks acceptable to the Group in pursuit of its overall business objectives. The Board is also responsible for overall corporate governance, which includes ensuring there is a robust and effective system of risk management, and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business.

To support this, the Group has established a Risk Management Framework and a formal governance structure to identify, monitor, manage and report on risks across its operations. The risk management framework is overseen by the Risk Committee on behalf of the Board. The Committee is required to consider the nature and extent of the risks facing the Group and to keep these under review, to review the framework to mitigate such risks and notify the Board of changes in their status and control. Each quarter, the Risk Committee reviews the risk register, performs "deep dives" into risks of interest and reports to the Board.

The Chief Executive has established an Executive Committee (ExCo) and sub-committees and details of these committees may be found on page 28.

Three lines of defence model

The Committee structures outlined oversee the governance of risk, within a management framework organised along the Three Lines of Defence model, as follows:

- **The First line of defence** - line managers are responsible for establishing an effective control framework within their area of operations, for identifying and containing risks and operating in the context of the organisation's risk appetite, and for checking that they fully comply with Group policies and where appropriate, defined thresholds and limits. They also devise and manage appropriate key risk indicators, management information and assurance processes to ensure their control framework is robust and effective.

- **The Second line of defence** - the Risk Management and Compliance function are responsible for proposing to the Board appropriate objectives and measures to define the Group's risk appetite and for devising a suite of policies to control the business including the overarching framework, and for independently monitoring the risk profile and providing additional assurance where required. Risk Management and Compliance will augment managers' expertise by providing frameworks, tools and techniques to help them fulfil their responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

- **The Third line of defence** - the Internal Audit function is responsible for independent assessment of the adequacy and effectiveness of internal controls and the system of risk management.

B5.5: Principal risks and mitigation

The Group is exposed to a variety of risks through its day to day operations. The principal risks, which are listed on page 14 of the Strategic Report, and how they are managed, are detailed below:

Regulatory and Conduct Risk– Fair Outcomes	**Risk direction:**
Description	**Mitigation**
Conduct Risk is the risk that our operating model or those of our intermediaries might lead to unfair outcomes for our customers or we fail to appropriately remediate customers if we get it wrong.	The Group has a suite of policies focused on the fair treatment of customers. We have an Executive Risk Committee that receives details of all operational risk incidents that have affected customers, together with actions to address any unfairness. In addition, the Committee focuses on monitoring detailed metrics that measure results for customers. Where any activities are identified that result in unfair customer outcomes, we are focused on ensuring that they are addressed as a matter of priority and that any adverse impact on the customer is promptly remedied.
Regulatory and Conduct Risk– Regulatory	**Risk direction:**
Description	**Mitigation**
The risk of loss arising from a breach of existing regulations, failure to implement changes relating to new legislation or regulation, or the imposition of adverse future regulatory changes in the markets the Group operates in.	The Group has Risk, Compliance and Legal teams that review key emerging regulatory developments to assess the impact on the Group. Expert third party advice is also sought where necessary. The level of regulatory change has markedly increased by both Regulators FCA/CBI, which is requiring additional drive and investment by the Group. The Compliance team has developed a formal monitoring plan which is reviewed by the Executive Risk Committee and approved by the Board Risk Committee. All employees are required to undertake regulatory training.
Operational Risk – System and Process	**Risk direction:**
Description	**Mitigation**
The risk of loss arising from inadequate or failed internal processes, systems and from arrangements with third parties.	The management of Operational Risk continues to be an area of on-going focus. Having migrated from legacy IT platforms, the focus is now on providing a strong foundation for the future evolution of the business. To improve the overall control environment, the Group continues to make investment in development of risk management frameworks, systems and processes, including IT project management, implementation planning and cyber-risk management. An annual Internal Audit review plan is undertaken across a number of critical risk-based areas to provide assurance and monitoring oversight.
Keys: Increase Decrease No change	

Operational Risk – Cyber	**Risk direction:**
Description	**Mitigation**
Cyber security remains a key area of focus for the Group, particularly as the rate of technology-driven disruption, including the impact and severity of cyber attacks, continues to increase. The constant threat posed by a cyberattack also directly impacts the existing risks associated with external fraud, data loss, data integrity and data accessibility.	The Group continues to develop its capability to prevent, detect, respond and recover from any cyber threats or attacks. Significant effort continues to be focused on discharging the Group's cyber risk management responsibilities effectively, with ongoing investment in appropriate technology and processes. Group has also now setup a new cyber security function for ongoing monitoring of cyber risk. Ensuring that the staff continue to be 'cyber aware' is also a key element of Group's defence strategy.
Operational Risk – People	**Risk direction:**
Description	**Mitigation**
The risk of loss arising from manual errors, control failures or internal / external fraud.	The risk of loss arising from errors or fraud increases with high turnover and poorly trained staff. The Group seeks to reduce the turnover by attracting, retaining and developing staff through ongoing training and development. In addition, improvements in the control environment include focusing on reducing the reliance on key individuals through identification of alternative colleagues with similar skills and building repeatable processes which rely less on individuals and more on systems and identified controls.
Operational Risk – External	**Risk direction:**
The risk of loss arising from actions taken by or towards third parties with which the business interacts.	The Group continually reviews its risk management approach to intermediaries and outsource partners to reflect the regulatory environment in which the Group operates.
Financial - Interest Rate Risk	**Risk direction:**
Description	**Mitigation**
The Group is exposed to the risk that interest rate changes may compromise its profitability. Specifically, the Group's net income is determined by the difference between the interest rates it lends at and those at which it borrows. During a period of rising interest rates, the Company would expect to see some compression in its margins due to the timing difference between the repricing of the loans and advances to customers and its borrowings.	The Group has a treasury function responsible for day to day management and control of its exposure to interest rate risk. The Asset and Liability Committee monitors interest rate risk on a monthly basis and reports to the Executive Risk Committee monthly. The Group has the ability through contractual rate ratchets to reprice future lending in the event of rate rises. The Group's asset backed funding facilities are variable rate facilities.
Financial - Liquidity Risk	**Risk direction:**
Description	**Mitigation**
The risk that the Group will have insufficient liquidity to fulfil its strategic lending targets and/or meet its financial obligations as they fall due.	The Group funds its activities through a securitisation facility under which a Master Trust funding platform provides access to public markets funding alongside its existing bank funders. The Group has modelled the impact of a significant weakening of the British Pound to the Euro which could impact the level of securitisation borrowing and is confident that it does not carry a significant risk in its liquidity position.
Keys: Increase **Decrease** **No change**	

Financial - Foreign Exchange Risk	**Risk direction:**
Description	**Mitigation**
The Group operates in Ireland as well as the UK and is exposed to foreign exchange rate risk arising from currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.	The level of operations in Ireland in relation to the Group as a whole is such that the foreign exchange risk is deemed to be acceptable. There are no hedges in place to mitigate this risk. The Group continues the monitor the uncertainty around UK withdrawal from the European Union and its impact on the foreign exchange risk.

Credit Risk – Customer	**Risk direction:**
Description	**Mitigation**
The Group provides finance to individuals, sole traders, partnerships and limited companies who typically wish to pay annual payments in monthly instalments. There is a risk that adverse changes in the macro economic environment or in the credit quality of our borrowers may result in additional impairment losses that could affect financial performance.	For our recourse products, Credit Risk is mitigated through the commercial arrangements that we have with our credit intermediaries. In circumstances where a borrower defaults with subsequent termination of the Credit Agreement, PCL will recover the outstanding balance from the intermediary who introduced the borrower to PCL, through a deduction from commission payments. For our non-recourse products, the Group has credit and affordability risk assessment / underwriting policies in place setting out detailed criteria for checks that must be undertaken before an advance is made. The credit risk function reports to the Executive Risk Committee and the Board Risk Committee on the performance of the Group's lending portfolios. In addition, the Group has rigorous and robust Collections and Recovery processes in place to manage arrears. The Credit Policy Manual was reviewed and updated in 2018, to further strengthen current processes and procedures within the credit risk function.

Credit Risk - Counterparty	**Risk direction:**
Description	**Mitigation**
The Group has a large number of commercial arrangements with credit intermediaries, who are the first point of contact when recourse borrowers' default. These intermediaries may also be service providers to our borrowers, with the risk of high cancellations if services are no longer provided. In addition, for non-recourse lending we have commercial arrangements requiring commission payments to be paid before being collected from the borrower, or where advance finance commission payments are being made. These payments can cause an exposure whilst they are collected from the borrower for the duration of their loan. For recourse insurance premium finance, the Group is also exposed to the risk of insolvency of the underlying insurer in relation to higher cancellations or obtaining return premiums.	The Group operates a process of due diligence in relation to the intermediaries with whom it enters into trading relationships. Once a relationship is in place, there is a continuous monitoring programme that keeps the financial, regulatory and trading performance of our intermediaries under regular review. Where upfront payments are made, these are subject to a modelling exercise to determine the level of financial risk that we are prepared to accept from any given intermediary. For insurers, regular monitoring and evaluation of exposure and financial condition is undertaken, especially for unrated insurers. The credit risk policy was reviewed and updated in 2017 to more proactively identify and mitigate counterparty risk.

Keys: Increase Decrease No change

Business Risk – Economic and Competition	**Risk direction:**
Description	**Mitigation**
The risk of loss arising from the failure of the Group's strategy or management actions beyond the planning horizon. The business faces competition from other providers of insurance premium and service fees financing in the UK and Ireland, as well as from providers of alternative forms of credit. Deteriorating economic conditions may reduce demand for our advances or the products for which we provide advances, and this would materially and adversely affect our financial health and operational results. We depend on our network of intermediaries to sell advances, and any changes to our relationships with them could have similar consequences.	The Group has a strong record of operating successfully in its chosen markets throughout its 29-year history, which it has achieved by continually improving its service proposition. The Group maintains strong relationships with its business intermediaries, customers and software house integrators. It is active in industry-wide groups that enable market trends to be identified and addressed. It also monitors competitors' products, pricing and positions to enable it to keep its own proposition under review. The Group continues to monitor the uncertainty around the UK's withdrawal from the European Union and the further possibility of interest rate rises closely. By maintaining a strong financial and liquidity position we aim to be able to absorb any short-term economic downturns.
Keys: Increase Decrease No change	

B6: Remuneration Committee

B6.1: Statement by the Chairman of the Remuneration Committee

The Committee reviews the Group's remuneration policy and makes recommendations to the Board on the remuneration of Executive committee members. It also sets and monitors performance criteria for all incentive schemes. In addition to Directors' remuneration, the Committee oversees any major changes to employee benefit schemes throughout the Group.

B6.2: Membership and meeting

The committee comprises Maxim Crewe (Chair), Peter Catterall, Colin Keogh and David Young, all of whom are non-executive directors. It meets twice during the year and has an agreed agenda linked to the events in the Group's financial calendar.

B6.3: Significant matters addressed by the Committee

The Committee considered a number of topics, in particular:

- The Group's overall objectives and allocation of the Executive Committee's individual annual objectives and targets;
- The potential total bonus awards for the Annual Incentive Plan and Executive Incentive Plan, based on the Group's achievement of the annual EBITDA profit targets;
- The review and approval of Executive, Senior Management and Sales team incentive scheme results;
- The review of the Group's overall Remuneration policy, reward and recognition schemes, Equity allocations and other reward matters.

B7: Report of the Directors

The Directors present their report and the audited consolidated financial statements for the Group for the year ended 31 December 2018.

Principal activities

The principal activity of the Group is the financing and processing of insurance premiums and instalment services in the UK. The Group also operates through a branch in the Republic of Ireland.

Directors and Directors' interests

Cinven is determined by the Board to be the ultimate controlling party.

Names of the Directors who served during the year and up to the date of signing the financial statements may be found on page 24.

No Director has an interest in the Company's shares. A register of Directors' business interests is held by the Company Secretary.

Directors' indemnity and liability insurance

As permitted by the Articles of Association, the Directors have the benefit of an indemnity, which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently still in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Business review and future developments

The Annual Report and financial statements provide shareholders with a fair, balanced and understandable review of the Group's business and the outlook for the future development, as well as the principal risks and uncertainties which could affect its performance.

The table below identifies specific information on the Business review:

Content	Section	Page
A detailed review of the Group's business and future developments	Chief Executive's statement Business review	5 17
Principal risks and uncertainties	Principal risks and uncertainties	14
Environmental matters, employee information and community issues	Sustainability report	20
Corporate governance	Corporate governance	27

Key Performance Indicators

Key Performance Indicators are used to measure and control both financial and operational performance. Revenues, operating margins, costs and cash are monitored to ensure that plans are on track and corrective actions are taken where necessary. Operational service performance is also monitored. Key performance indicators are discussed on page 16.

Conduct Risk

Conduct Risk is central to the Financial Conduct Authority's and the Central Bank of Ireland's principles for consumer protection and conduct. These principles are framed within our Code of Conduct, and disseminated through policies, training and our business objectives.

Employees

The Group is committed to attracting, developing and retaining the best talent in order to achieve its strategic objectives. Internal communications have been enhanced providing more detailed information and understanding for staff on the progress and development of the Group. Staff engagement has been increased through the implementation of agreed actions. The Group is committed to employment policies which follow best practice on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled, the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary. Further information on employees may be found on page 20.

Supplier payment policy

The Group agrees appropriate terms and conditions individually with its suppliers. It seeks to abide by these terms provided that the supplier has also done so.

Principal risks and uncertainties

The Group, through its operations, is exposed to several risks. Further information is provided in the Risk Management Approach on page 31.

Results and dividends

The Group continues to be consistently profitable. Its dividend policy determines the distributions which provide a reasonable return to shareholders, whilst also providing funds for investment, potential acquisitions and replenishing the cash balance. However, in the absence of acquisitions, the Group has a track record of returning the additional cash to shareholders.

The Directors paid dividends of £50.0 million during 2018 (2017: £49.6 million). No further dividend has been proposed.

Details of the results for the year are set out in the Consolidated income statement on page 46.

Research and development

The Group undertakes research and development on its IT systems to enhance its service offerings. Disclosure of the expenditure and capitalisation of development costs in the year may be found in note 13 to the financial statements.

Going concern

The Group's securitisation facility provides access, through a Master Trust, to both private banking and public Asset-backed security (ABS) funding. This diversified funding base lowers the Group's liquidity risk. The Master Trust has two additional liquidity protection features: 1) Asset grandfathering which allows the Group to report assets impacted by a merger in line with their pre-merger classification. This protects the Group from immediate excess concentrations caused by market consolidation, with any excess concentration building over time as the Group writes new assets through the combined entity; 2) an excess concentration facility which provides funding for excess concentration driven by external events, allowing the Group to obtain funding for assets written with the newly combined entity whilst modifications are made to the existing funding lines.

In June 2018, the existing VFN facility was reduced by £25 million to £519.0 million and the final legal maturity date of the Securitisation Notes was extended to 21 June 2023.

The Directors have assessed the Group's cash flow forecasts and are satisfied that it has adequate resources to continue operations for the foreseeable future and thus the financial statements have been prepared on a going concern basis.

Post balance sheet events

There were no post balance sheet events.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's auditors are aware of that information.

Approved by the Board on 29 April 2019 and signed on its behalf by:

On behalf of the Board

Thomas Woolgrove

Director

Independent auditors' report to the members of Mizzen Mezzco Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Mizzen Mezzco Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements 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.

Our opinion is consistent with our reporting to the Audit Committee.

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 group 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall group materiality: £1,509,000 (2017: £2,059,000), based on 2.5% of earnings before interest, tax, depreciation and amortisation.
- Overall parent company materiality: £593,000 (2017: £584,000), based on 1% of total assets.

- Premium Credit Limited was the only component in scope for the group audit and was audited to an overall materiality of £1,509,000. Where there were material external balances in other entities these were audited to the same materiality.

- Revenue recognition - Effective Interest Rate.
- Measurement of listed debt on balance sheet.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to listing rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the Financial Conduct Authority regulation and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team and/or component auditors included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of the financial statement disclosures to underlying supporting documentation;
- Performed risk based testing on manual journal entry postings;
- Review of minutes of director meetings occurring during the year;
- Challenging assumptions and judgements made by management in their significant accounting estimates as set out on pages 65 and 66 of the annual report and financial statements; and
- Review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Revenue recognition - Effective Interest Rate Interest income on loans and advances made by the Group is recognised using the effective interest rate ("EIR") method, in line with IFRS 9 - Financial Instruments. Any account fees and direct transaction costs that form an integral part of the yield are included in the EIR. Given the magnitude of interest income, managements' correct application of EIR creates a higher risk of material misstatement due to error or fraud. Refer to note 2(d), 3(b) and 5 of the financial statements for the directors' disclosures of the related accounting policies and associated financial statement note.	We assessed whether the EIR calculation was in accordance with IFRS 9 – Financial Instruments. We audited the interest income and the effective interest rate model by testing the associated revenue controls, and re-performing the calculations for a sample of loans and advances, agreeing them to loan agreements and testing the effective interest rate calculations. Through the procedures performed above, we have determined that the effective interest rate model used and the assumptions management have made are appropriate and in accordance with IFRS 9 - Financial Instruments.
Measurement of listed debt on balance sheet In 2017, the Group listed two loan notes totalling £600,000,000 on the Irish Stock Exchange. This was in addition to a £200,000,000 loan note listed on the Irish Stock Exchange in 2014 (with £10,600,000 of the initial loan subsequently redeemed in 2015).The loan notes are accounted for at amortised cost using the effective interest rate method and are reduced by any capital redemptions occurring during the year. We therefore focused our testing on the year end measurement of the loan	We assessed whether the measurement of the loan notes were in accordance with IFRS 9 – Financial Instruments. We undertook the following procedures to test the measurement of the loan note: Confirmed the contractual amounts outstanding at the year-end to confirmation from the issuing bank and Irish Stock Exchange records. Confirmed the effective interest rate method used within the amortised cost calculation. Tested the interest expense through recalculation and

Key audit matter	*How our audit addressed the key audit matter*
notes. Refer to note 2(i) and 19 of the financial statements for the directors' disclosures of the related accounting policies and associated financial statement note.	reference to contractual agreement. Through the procedures detailed above, we have determined that the measurement of the listed debt was in accordance with IFRS 9 – Financial Instruments.

We determined that there were no key audit matters applicable to the parent company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The group financial statements are a consolidation of 12 statutory entities, comprising the group's operating business, Premium Credit Limited and a number of intermediate holding and finance companies.

The accounting and financial management for all statutory entities is controlled from the UK, so we as the group engagement team have performed all audit work.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Parent company financial statements*
Overall materiality	£1,509,000 (2017: £2,059,000).	£593,000 (2017: £584,000).
How we determined it	2.5% of earnings before interest, tax, depreciation and amortisation.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, earnings before interest, tax, depreciation and amortisation is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	As the entity is established as a holding company, it would follow that users may focus their attention on the total assets. It is therefore considered appropriate that overall materiality be calculated at 1% of total assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £75,450 (Group audit) (2017: £102,950) and £29,650 (Parent company audit) (2017: £29,200) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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 group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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 Report of the Directors, 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 Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 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 group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

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 set out on page 39 and 40, 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 group's and the parent 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 group or the parent 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 parent 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 parent 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 parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 August 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2012 to 31 December 2018.

Keith Harrington (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2019

C2: Consolidated income statement

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Interest income		**112,891**	119,133
Interest expense		**(18,968)**	(17,467)
Net interest income	5	**93,923**	101,666
Fee and commission income	6	**14,973**	16,188
Fee and commission expense	7	**(4,067)**	(3,787)
Total income		**104,829**	114,067
Administrative expenses	8	**(71,547)**	(65,917)
Operating profit		**33,282**	48,150
Finance income	10	**8**	7
Finance expense	11	**(14,654)**	(14,654)
Profit before taxation		**18,636**	33,503
Income tax expense	12	**(1,732)**	(4,421)
Profit for the financial year		**16,904**	29,082

The notes on pages 53 to 86 are an integral part of the financial statements.

Results relate to continuing operations.

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

C3: Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		**16,904**	29,082
Other comprehensive income			
Items that may subsequently be reclassified to the profit or loss:			
Foreign currency translation gains	22	**379**	730
Other comprehensive income for the year		**379**	730
Total comprehensive income for the year		**17,283**	29,812

C4: Consolidated balance sheet

As at 31 December 2018

	Notes	31 Dec 2018 £'000	31 Dec 2017 £'000
Assets			
Non-current assets			
Intangible assets	13	**12,649**	11,661
Property, plant and equipment	14	**3,766**	4,467
Loans and advances to customers	15	**3,129**	3,087
Prepayments and other receivables	16	**1,686**	3,298
Deferred tax asset	17	**424**	236
Total non-current assets		**21,654**	22,749
Current assets			
Loans and advances to customers	15	**1,397,547**	1,417,609
Prepayments and other receivables	16	**10,988**	7,860
Corporation tax receivable		**1,437**	1,578
Cash and cash equivalents	18	**66,149**	102,097
Total current assets		**1,476,121**	1,529,144
Total assets		**1,497,775**	1,551,893
Liabilities			
Non-current liabilities			
Borrowings	19	**1,159,874**	1,184,317
Total non-current liabilities		**1,159,874**	1,184,317
Current liabilities			
Trade and other payables	20	**430,064**	426,919
Total current liabilities		**430,064**	426,919
Total liabilities		**1,589,938**	1,611,236
Equity			
Called up share capital	21	**44,502**	44,502
Retained earnings		**(139,179)**	(105,980)
Other reserves	22	**2,514**	2,135
Total shareholders' equity		**(92,163)**	(59,343)
Total liabilities and equity		**1,497,775**	1,551,893

The financial statements on pages 46 to 86 were approved by the Board on 29 April 2019 and signed on its behalf by:

Thomas Woolgrove
Director

C5: Company balance sheet

As at 31 December 2018

	Notes	31 Dec 2018 £'000	31 Dec 2017 £'000
Assets			
Non-current assets			
Investments	23	**44,502**	44,502
Prepayments and other receivables	16	**14,741**	13,871
Total non-current assets		**59,243**	58,373
Current assets			
Prepayments and other receivables	16	**44**	23
Total current assets		**44**	23
Total assets		**59,287**	58,396
Liabilities			
Current liabilities			
Trade and other payables	20	**575**	382
Total current liabilities		**575**	382
Total liabilities		**575**	382
Equity			
Called up share capital	21	**44,502**	44,502
Retained earnings		**14,210**	13,512
Total shareholders' equity		**58,712**	58,014
Total liabilities and equity		**59,287**	58,396

The Company made a profit of £50.7 million in the financial year (2017: £59.9 million).

Approved by the Board on 29 April 2019 and signed on its behalf by:

Thomas Woolgrove
Director

C6: Consolidated statement of changes in equity

For the year ended 31 December 2018

	Notes	Called Up Share Capital £'000	Retained Earnings/ (losses) £'000	Other Reserves £'000	Total Equity £'000
At 1 January 2017		**44,502**	**(85,471)**	**1,405**	**(39,564)**
Profit for the financial year		-	29,082	-	29,082
Foreign currency translation gain	22	-	-	730	730
Total comprehensive income for the year		-	29,082	730	29,812
Transactions with owners:					
Dividends paid	24	-	(49,591)	-	(49,591)
At 31 December 2017 and 1 January 2018		**44,502**	**(105,980)**	**2,135**	**(59,343)**
Impact of adopting IFRS 9:					
Expected credit losses		-	(128)	-	(128)
Deferred tax		-	25	-	25
Restated balance as at 1 January 2018		**44,502**	**(106,083)**	**2,135**	**(59,446)**
Profit for the financial year		-	16,904	-	16,904
Foreign currency translation gain	22	-	-	379	379
Total comprehensive income for the year		-	16,904	379	17,283
Transactions with owners:					
Dividends paid	24	-	(50,000)	-	(50,000)
At 31 December 2018		**44,502**	**(139,179)**	**2,514**	**(92,163)**

C7: Company statement of changes in equity

For the year ended 31 December 2018

	Notes	Called Up Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2017		**44,502**	**3,228**	**47,730**
Profit for the financial year		-	59,875	59,875
Dividends paid	24	-	(49,591)	(49,591)
At 31 December 2017 and 1 January 2018		**44,502**	**13,512**	**58,014**
Profit for the financial year		-	50,698	50,698
Dividends paid	24	-	(50,000)	(50,000)
At 31 December 2018		**44,502**	**14,210**	**58,712**

C8: Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated by operations	25	**81,404**	142,816
Interest paid		**(29,128)**	(28,487)
Income tax paid		**(1,564)**	(5,875)
Net cash flows generated from operating activities		**50,712**	108,454
Cash flows used from investing activities			
Purchase of intangible fixed assets	13	**(6,911)**	(4,864)
Purchase of property, plant and equipment	14	**(513)**	(1,458)
Proceeds from disposal of plant and equipment		**-**	34
Net cash used in investing activities		**(7,424)**	(6,288)
Cash flows from financing activities			
(Repayments of)/increase in borrowings		**(27,366)**	4,967
Facility fees paid		**(2,135)**	(6,589)
Dividends paid to shareholders	24	**(50,000)**	(49,591)
Net cash flows used in financing activities		**(79,501)**	(51,213)
Net (decrease)/increase in cash and cash equivalents		**(36,213)**	50,953
Cash and cash equivalents at beginning of year		**102,097**	51,013
Foreign currency translation gains		**265**	131
Cash and cash equivalents at end of year	18	**66,149**	102,097

The notes on pages 53 to 86 are an integral part of the financial statements.

C9: Notes to the financial statements

1. General information

Mizzen Mezzco Limited ("the Company"), and its subsidiaries (together "the Group"), is a financial services Group specialising in funding and payment processing solutions. The Company is incorporated and domiciled in the UK and is a private company, limited by shares. The Group has a branch in Republic of Ireland.

Details of subsidiaries and Group undertakings are provided in note 23. These company and consolidated financial statements comprise both the financial statements of the Company and Group.

2. Accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2017 Annual Report and Accounts with the exception of new accounting policies in respect of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', which were both adopted on 1 January 2018.

IFRS 9 replaces IAS 39 *'Financial Instruments: Recognition and Measurement'.* This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment. IFRS9 has not had a significant impact on the Group. Details of the new accounting policies applied and its impact of transition to IFRS 9 can be found in note 2 (i) and (j).

IFRS 15 replaces IAS 18 *'Revenue'* and IAS 11 *'Construction contracts'* as a comprehensive standard for revenue recognition. Financial instruments and other contractual rights or obligations within the scope of IFRS 9 are excluded from the scope of this standard. The Group assessed its non-interest revenue streams that fall under the scope of IFRS 15 and determined that there was no impact on the amount or timing of revenue to be recognised as a result of the adoption of IFRS 15. As such there is no adjustment to the opening balance of retained earnings or related tax balances. Furthermore, there is no impact to the consolidated statement of financial position or the consolidated statements of profit and loss and other comprehensive income.

A summary of the principal accounting policies is set out below.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) of the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements are presented in sterling which is the functional currency of the Group. The figures shown in the financial statements are rounded to the nearest thousand unless otherwise stated.

The financial statements of the company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The Company's parent undertaking, Pomegranate Acquisitions Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions.

The following exemptions from the requirements of IFRS have been applied in the preparation of the company financial statements, in accordance with FRS 101:

- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary, which is a party to the transaction, is wholly owned by such a member.
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- The requirements of IFRS 7 'Financial Instruments: Disclosures'.

(b) Going concern

The Group's securitisation programme is executed via a Master Trust facility, which was set up in December 2016 and facilitates the issuance of term notes alongside the private banking facility (the "VFN Facility"). Public asset backed securities totalling £565.5 million were issued in 2017; the reinvestment period end date is June 2020 for £282.0 million and June 2021 for £283.5 million.

In June 2018, the business agreed the extension of the securitisation notes issued by PCL Funding I Ltd until June 2021 and reduced the VFN facility size to £519.0 million. The £519 million is divided into two tranches rated by Moody's and DBRS: £500.0 million Class A and £19.0 million Class B.

The existing structure and changes ensure that the business maintains a diversified and stable funding structure which reduces its liquidity risk.

Accordingly, the Directors have assessed the Group's cash flow forecasts and are satisfied that the Group has adequate resources to continue operations for the foreseeable future and thus the financial statements have been prepared on a going concern basis.

(c) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and all consolidated subsidiaries, including the securitisation SPVs.

Investment in Group undertakings

A subsidiary is an entity in which the Group determines the financial and business policies, and is able to exercise control over it in order to benefit from its activities.

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment in the company financial statements. Impairment reviews are performed annually by the directors or where there has been an indication of potential impairment.

The results of subsidiaries are fully consolidated from the date that control commences until the date that control ceases. Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated upon consolidation.

Special Purpose Vehicles

The Group enters into securitisation transactions in which it assigns receivables to a Special Purpose Vehicle (SPV) that supports the issuance of securities backed by the cash flows from the securitised receivables. Although none of the equity of the SPV is owned by the Group, the nature of these entities, which are in substance controlled by the Group, mean that the Group retains substantially all the risks and rewards of ownership of the receivables. As such the SPV is consolidated on a line-by-line basis in the Group consolidated financial statements.

As at 31 December 2018, there were £973.8 million notes in issue relating to securitisation transactions (2017: £999.9 million).

(d) Net interest income recognition

Interest income and expense for all financial instruments measured at amortised cost are recognised using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of recognising the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

(e) Fee and commission income recognition

Fees in respect of services are recognised when the service to the customer has been provided. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is fixed and always determinable. The Group generates fees from the financing of insurance policies and other instalment services underwritten or delivered by third party insurers or suppliers. This is based on fee rates that are independent of the profitability of the underlying insurance policies or fee plan.

(f) Taxation

The tax expense included in the consolidated income statement consists of current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be realised.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current tax assets against current tax liabilities and it is the intention to settle these on a net basis.

(g) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date of valuation.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

All foreign exchange gains and losses recognised in the consolidated income statement are presented net in the consolidated income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

(h) Cash and cash equivalents

Cash and cash equivalents comprise deposits held at call with banks.

(i) Financial instruments

On 1 January 2018, the Group adopted IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment.

The Group has adjusted its opening retained earnings to reflect the application of the requirements of IFRS 9. In accordance with the transition requirements, comparative periods are not restated. The comparative periods in 2017 are reported under the requirements of IAS 39 and are not comparable to the information presented for 2018.

The policies for financial assets and impairment of financial assets have changed from 1 January 2018 following the adoption of IFRS 9; the revised policies are set out below.

Financial assets

Financial assets comprise cash and bank balances, loans and advances to customers and other receivables.

Classification and measurement

Financial assets are classified into one of three measurement categories:

(a) Amortised cost;

(b) fair value through other comprehensive income (FVOCI); or

(c) fair value through profit or loss (FVPL).

Classification is based on the objectives of the Group's business model for managing its financial assets and the contractual cash flow characteristics of the instruments.

(a) Amortised cost

Financial assets that are held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified at amortised cost. This category includes Group's loan portfolios and cash and bank balances within a "hold to collect" business model.

Financial assets at amortised cost are initially recognised at fair value, including direct and incremental transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method.

The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income is included in 'Interest income' using the effective interest rate method.

(b) Fair value through other comprehensive income (FVOCI)

Financial assets held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where contractual terms comprise solely payments of principal and interest are classified and measured at fair value through other comprehensive income (FVOCI).

Financial assets at FVOCI are initially measured at fair value, including direct and incremental transaction costs. Subsequent measurement is at fair value, with changes in fair value being recognised in other comprehensive income, with the exception of impairment gains or losses, interest income and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

On derecognition of a financial asset, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Fair value gains/losses on financial instruments

(c) Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL on initial recognition and at each reporting date.

Any gain or loss on an asset that is subsequently measured at FVTPL, and is not part of a hedging relationship, is recognised in profit or loss and presented in the profit or loss statement within 'Fair value gains/losses on financial instruments'.

Interest income from these financial assets is included separately in 'Net Interest Income'.

Financial liabilities

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The Group does not hold any financial liabilities classified as held for trading.

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

Transition disclosures

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Notes	Original classification under IAS39	New classification under IFRS9	Original carrying amount under IAS 39 as at 31 Dec 2017 (Audited) £'000	New carrying amount under IFRS 9 as at 1 Jan 2018 (Unaudited) £'000
Financial assets					
Cash and cash equivalents	**18**	Loans and receivables	**Amortised Cost**	102,097	**102,097**
Loans and advances to customers	**15**	Loans and receivables	**Amortised Cost**	1,420,696	**1,420,653**
Amounts owed by Group undertakings	**16**	Loans and receivables	**Amortised Cost**	321	**321**
Total financial assets				1,523,114	**1,523,071**
Financial liabilities					
Borrowings	**19**	Amortised Cost	**Amortised Cost**	1,184,317	**1,184,317**
Trade and other payables	**20**	Amortised Cost	**Amortised Cost**	426,919	**427,004**
Total financial liabilities				**1,611,236**	**1,611,321**

The following table sets out the impact of adopting IFRS 9 on the Balance Sheet carrying amounts and retained earnings as at 1 January 2018. Only balances impacted by the transition to IFRS 9 are included in the table; all other balances are unchanged.

	IAS 39 carrying amount as at 31 Dec 2017 (audited) £'000	Reclassi-fication £'000	Remeasu-rement £'000	IFRS 9 carrying amount as at 1 Jan 2018 (unaudited) £'000	Retained profits impact as at 1 Jan 2018 £'000
Assets					
Loans and advances to customers					
Opening balance	1,420,696	-	-	**1,420,696**	
Reclassification	-	85	-	**85**	
Remeasurements:					
Expected credit loss	-	-	(128)	**(128)**	**(128)**
Total loans and advances to customers	**1,420,696**	85	**(128)**	**1,420,653**	**(128)**
Deferred tax assets					
Opening balance	236	-	-	**236**	
Remeasurements:					
Expected credit loss	-	-	**25**	25	**25**
Total deferred tax assets	**236**	-	**25**	**261**	**25**
Total change to assets	**N/a**	**85**	**(103)**	**N/a**	**(103)**
Liabilities					
Trade and other payables	426,919	85	-	427,004	-
Total change to liabilities	**N/a**	**85**	**-**	**N/a**	**N/a**
Equity					
Retained earnings					
Opening balance	(105,980)	-	-	**(105,980)**	-
Remeasurements due to expected credit loss (after tax)	-	-	**(103)**	**(103)**	**(103)**
Total retained earnings	(105,980)	-	**(103)**	**(106,083)**	**(103)**
Total change to equity	**N/a**	**-**	**(103)**	**N/a**	**(103)**

(j) Impairment of financial assets (Expected Credit Loss)

The Group assesses all financial assets and off-balance sheet commitments for impairment at each reporting date. For the Group, this is primarily loans and advances to customers. Under IFRS 9 a 'three-stage' model for calculating Expected Credit Losses (ECL) is used, and is based on changes in credit quality since initial recognition as summarised below:

- **Stage 1:** When a financial asset is first recognised it is assigned to Stage 1. If there is no 'significant increase in credit risk' from initial recognition the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1 a '12-month ECL' is recognised.
- **Stage 2:** When a financial asset shows a 'significant increase in credit risk' from initial recognition it is moved to Stage 2. Stage 2 also includes financial assets where the credit risk has improved and the

financial asset has been reclassified back from Stage 3. For financial assets in Stage 2 a 'lifetime ECL' is recognised.

- **Stage 3:** When there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit impaired, it is moved to Stage 3. For financial assets in Stage 3 a 'lifetime ECL' is recognised.

In relation to the above:

- **'Lifetime ECL'** is defined as ECLs that result from all possible default events over the expected life of a financial instrument.
- **'12-month ECL'** is defined as the portion of the lifetime ECL that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

On an ongoing basis the Group assesses whether there has been a change in credit quality and where necessary financial assets are then moved through the stages accordingly as outlined below.

Significant increase in credit risk assessment– movement to Stage 2:

A 'significant increase in credit risk' (SICR) is not a defined term, and is determined by Management, based on their experience and judgement. The majority of Group's loans and advances are short term agreements of less than 12 months. Based on its historical experience of performance of those loans and due to its short-term exposure, it applies a conservative approach for measuring SICR, a principle called "one day one penny overdue" which means a loan account which is past due by 1 day is an indicator of significant increase in credit risk. Since the majority of Group's customers pay by direct debit and the loans are only for a short period, it believes that for a customer to miss a payment or to be in arrears, provides a strong indication of 'significant increase in credit risk'. This excludes cases where the payment is delayed due to technical reasons.

Default – movement to Stage 3:

A financial asset will only be considered credit impaired if there is objective evidence of impairment, including financial assets that are defaulted or 90 days past due. Where a financial asset is classified as credit impaired it will be moved into Stage 3.

Advances are considered to be defaulted where the borrower is in breach of contract, is bankrupt, or experiences other significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the advance. The Group refers to these kinds of advances as "terminated agreement". In addition to the qualitative factors, the advances have to be at least 30 days past due to fall into termination category.

When advances are identified as credit impaired, interest income is calculated at amortised cost on the net carrying value of the loan (carrying value net of the impairment provision) in line with the requirements of IFRS 9.

Improvement (movement back to a lower stage):

The advances in Stage 2 are assumed to be cured when the payments are up to date. These accounts are no longer included as "one day one penny overdue" when the data is refreshed at month end.

The advances in Stage 3 do not cure as they are classed as "terminated agreements". Based on the Group's historical experience these loans do not cure from default status as the Group will have already started recovery procedures.

Write off

The Group writes off advances when they are 180 days past due.

Calculation of Expected Credit Losses (ECLs)

Nearly all the advances the Group writes have a term of less than 12 months. At 31 December 2018, 99.8% of the outstanding advances had a remaining life of 12 months or less. As a result of this the calculation methodology for the 12 months and life time ECL are broadly the same. The calculation is based on historical loss rates where each division's advances are analysed independently, and the average historical loss rate calculated based on the incurred loss data. The Group considers this to be the Probability of Default.

The Probability of Default is applied to balances in each Stage to derive the ECL.

Since the loans are mainly unsecured, the only factor that reduces the loss to the Group (loss given default) is when there are recourse arrangements with intermediaries (such as brokers and insurance companies). For recourse books, the ECL calculation also factors in any expected recoveries from intermediaries in case of a default by the customers. Theses recoveries are adjusted by any probability of failure of the intermediary themselves.

Due to the short term nature of the products offered by the Group, there is a weak correlation between the performance of the portfolio and macroeconomic lead indicators. As a result, the Group does not use multiple economic scenarios in assessing the Probability of Default at each impairment stage and expects the impact of this to be immaterial on overall impairment calculation.

Transition disclosures

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017, to, the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

					Of which:		
	IAS 39 closing balance as at 31 Dec 2017 (audited) £'000	**Remeas-urement £'000**	**Reclassifi-cation £'000**	**IFRS 9 opening balance as at 1 Jan 2018 (unaudited) £'000**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**
Impairment losses on loans and advances to customers	4,481	128	(85)	**4,524**	3,128	394	1,002
Total provisions	4,481	128	**(85)**	4,524	**3,128**	**394**	**1,002**

(k) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle a liability simultaneously.

(l) Impairment of non-financial assets

Non-financial assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. If an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date except for goodwill.

(m) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with that item will flow to the Group. All other repairs and maintenance costs are charged to the consolidated income statement in the period in which they are incurred.

Depreciation is charged to the consolidated income statement on a straight-line basis so as to allocate the costs less residual value over their estimated useful lives. Depreciation commences on the date that the asset is brought into use. Work in Progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment.

Estimated useful lives for property, plant and equipment are:

Vehicles and equipment	3 to 10 years
Leasehold improvements	10 to 20 years
Leasehold offices	15 to 20 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in administrative expenses in the consolidated income statement.

Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property acquired via a finance lease is stated at an amount equal to the lower of its fair value and present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Leases, in which substantially all the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(n) Intangible assets

Intangible assets that are acquired by the Group are stated at historical cost less accumulated amortisation and any impairment losses. Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over their estimated useful lives.

Assets under construction (Internally generated intangible assets)

Research costs are expensed as incurred. Expenditure incurred on the development of software is capitalised only if the following criteria are met:

- Technical feasibility has been demonstrated;
- The intention to complete the development project is demonstrable (e.g. allocated budgets and resources, Board of Directors approval);
- Management is satisfied with the ability to use or sell the results of the project;
- It is probable that the asset created will generate future economic benefits (e.g. existence of the market for the results of the project);
- Adequate technical, financial or other resources to complete the development and to use or sell the software are available; and
- The development cost of the asset can be measured reliably.

Only the costs that are directly attributable to the generating the intangible asset are capitalised.

The following costs are not capitalised: Operational, General and Administration overheads, annual software licences, training, legal and professional fees related to disputes with suppliers.

Following the initial recognition of development expenditure, the cost is amortised over the estimated useful lives of the assets created. Amortisation commences on the date that the asset is brought into use. As assets categorised as Assets under construction or Work in progress are brought into use, the assets are transferred to the appropriate classification within intangible assets. The estimated useful lives for such assets is:

Capitalised development costs/software	3 to 5 years

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not subject to amortisation but is tested at least annually for impairment.

(o) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(p) Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

(q) Provisions for liabilities and charges and contingent liabilities

A provision is recognised where there is a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expected expenditure required to settle the obligation. A contingent liability is a possible obligation that is dependent on the outcome of uncertain future events not wholly within the control of the Group, or a present obligation where an outflow of resources is not a likely outcome, or the amount cannot be reliably measured.

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources is remote.

(r) Share capital

Ordinary shares and preference shares are classified as equity.

(s) Dividends

Dividends paid are reported in equity in the period they are approved by the Group's Board.

(t) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group considers the Board of Directors to be its chief operating decision-maker.

In accordance with IFRS 8 'Operating Segments', the Group has a single operating segment being the financing of insurance premiums and instalment services.

(u) Future accounting pronouncements

A number of new accounting standards and amendments to accounting standards have been issued by the IASB, which are not yet effective and have not been early adopted by the Group. These are set out below:

- *IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019).*

IFRS 16 eliminates the distinction between operating and finance leases that currently exists in IAS 17, with virtually all leases being recognised on balance sheet. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost.

The Group expects to adopt IFRS 16 using a modified retrospective approach where the cumulative effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated. The expected impact of implementation of the standard is an increase in assets of £6.4 million, an increase in liabilities of £6.4 million with no material impact on retained earnings.

- *IFRIC 23 - Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019).*

IFRIC 23 provides requirements that add to the requirements in IAS 12 (Income Taxes) by specifying how to reflect the effects of uncertainty in accounting for incomes taxes. The interpretation is to be applied to the determination of taxable profits (losses), tax bases, unused tax losses, unused tax credits and tax rates. This interpretation is not expected to have a material impact on the financial statements of the Group.

3. Critical accounting estimates and judgments in applying accounting policies

The reported results of the Group are sensitive to the accounting policies, judgements and estimates that underlie the preparation of its financial statements. The Group's principal accounting policies are set out in this document. United Kingdom company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgments and estimates that are reasonable and prudent. Where accounting standards are not specific, and management have to choose a policy, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires them to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements. The judgments and assumptions involved in the Group's accounting policies that are considered to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

(a) Expected credit losses on financial assets

The measurement of Expected Credit Losses (ECLs) prescribed by the new requirements of IFRS 9 requires a number of significant judgements. ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Specifically, judgements and estimation uncertainties relate to assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information in the measurement of ECLs and key assumptions used in estimating recoverable cash flows. These estimates are driven by a number of factors that are subject to change which may result in different levels of ECL allowances.

The calculation of ECLs and the associated areas of judgements and estimates are detailed in Note 2 (j).

(b) Effective interest rate

In calculating the effective interest rate of a financial instrument, the Group takes into account all amounts that are integral to the yield. In the case of loans and advances to customers judgement is applied in estimating future cash flows. Judgement is also required in estimating the expected average life of customer debt balances. A change in the estimate of any of the key variables in this calculation has the potential to significantly impact income recognised in the consolidated income statement.

(c) Development costs

The Group has capitalised internally generated intangible assets as required in accordance with IAS 38. Management consider it probable that software development activities in the course of construction will result in a deployable system. The recoverable amount of the assets has been determined based on value in use calculations which require the use of estimates and judgements.

(d) Impairment of assets

IFRS requires management to undertake an annual test for impairment for assets with finite lives, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the fair value less costs to sell or net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions have been made in respect of highly uncertain matters, including management's expectations of growth and discount rates. Changing the assumptions selected by management could significantly affect the Group's impairment evaluation and hence results. The Group's review includes the key assumptions related to sensitivity in the cash flow projections.

(e) Fair values estimation for financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Group carries derivative financial instruments at fair value, with changes in fair value reported within the consolidated income statement. An analysis of financial instruments carried at fair value by valuation hierarchy and particulars of valuation techniques utilised is included in note 28 and the accounting policy set out in note 2.

Valuation techniques are used to establish the fair values of financial instruments for which no active market exists. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Short term receivables and payables, deemed to be one year or less, are measured at original invoice amount.

(f) Other provisions

The nature and complexity of the Group's contractual arrangements can often mean uncertain positions arise as a result of its normal trading activities. A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate. Provisions are measured at management's best estimate of the expenditure required to settle the Group's liability. These estimates are reviewed each year and updated as necessary.

4. Segmental reporting

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors, who are responsible for allocating resources to the reporting segments and assessing their performance. The operating segment used by the Group meets the definition of a reportable segment under IFRS 8.

The Group has a single operating segment being the financing of insurance premiums and instalment services.

5. Net interest income

	2018 £'000	2017 £'000
Interest income on loans and advances to customers	**112,891**	119,133
Interest income	**112,891**	119,133
Interest payable on:		
Securitisation notes	**(18,968)**	(17,753)
Derivative financial instruments	**-**	286
Interest expense	**(18,968)**	(17,467)
Net interest income	**93,923**	101,666

6. Fee and commission income

	2018 £'000	2017 £'000
Servicing and administration fees	**14,973**	16,188
Fee and commission income	**14,973**	16,188

The costs associated with Servicing and administration fees income are primarily included in administrative expenses. See note 8 on page 68 for an analysis of the Group's administrative expenses.

7. Fee and commission expense

	2018 £'000	2017 £'000
Fees and commission expense	**4,067**	3,787
Fee and commission expense	**4,067**	3,787

8. Administrative expenses

	2018 £'000	2017 £'000
Staff costs:		
Wages and salaries	**21,951**	22,021
Social security costs	**3,342**	2,704
Other pension costs	**1,301**	1,256
Total staff costs	**26,594**	25,981
Non-staff costs:		
Other administration costs	**15,415**	18,862
IT related expenditure	**9,005**	10,953
Cyber incident costs*	**2,802**	-
Depreciation and amortisation	**6,472**	6,142
Impairment of loans and advances to customers	**9,314**	5,580
Operating lease costs	**970**	922
Loss on disposal of fixed assets	**665**	40
Loss/(gains) from foreign exchange	**310**	(2,563)
Total non-staff costs	**44,953**	39,936
Administrative expenses	**71,547**	65,917

*Cyber incident costs represented non- recurring expenditure associated with responding to the Cyber incident in September 2018. The Group has made a claim against its cyber insurance policy. This insurance claim is in its initial phase and the expected recovery from it cannot be reliably measured at the date of approval of financial statements.

Impairments of loans and advances to customers

	2018 £'000	2017 £'000
Movement in expected credit losses/impairment allowance	**1,899**	(1,370)
Amounts written off during the year as uncollectible, net of recoveries	**7,415**	6,950
Impairment of loans and advances to customers	**9,314**	5,580

Total auditors' remuneration

Fees payable to Group's auditors and its associates for the audit of parent company, consolidated financial statements, and Group's subsidiaries:

Auditors remuneration	2018 £'000	2017 £'000
Audit Services	**283**	250
Audit related services	**75**	25
Other	-	22
Total auditors remuneration	**358**	297

The above fees for audit services are borne by Premium Credit Limited and include all Pomegranate Topco Limited consolidated entities.

All audit fees for the Group are borne by Premium Credit Limited, a Group subsidiary.

Employees

The average monthly number of persons (including executive Directors) employed by the Group split by function during the year was:

	2018 Number	2017 Number
Operations	**162**	172
General and administration	**165**	168
Sales and marketing	**83**	77
Total number of employees	**410**	417

All employees have contracts of employment with Premium Credit Limited, a Group subsidiary.

9. Directors' emoluments

The remuneration of the Directors paid by the Group during the year was as follows:

	2018 £'000	2017 £'000
Aggregate emoluments	**2,227**	1,595
Total emoluments	**2,227**	1,595

Directors' emoluments include amounts paid or accrued in respect of Premium Credit Limited and Mizzen Mezzco Limited directors. The costs of Directors' emoluments are borne by Premium Credit Limited.

The total emoluments of the highest paid Director were £0.9 million (2017: £0.7 million) which includes payment in lieu of notice £0.7million (2017: nil). No contributions were made in respect of money purchase schemes to the highest paid director (2017: £Nil).

The remuneration of key management personnel is shown in note 30(b).

10. Finance income

	2018 £'000	2017 £'000
Interest income from Group undertakings	**8**	**7**
Finance income	**8**	**7**

11. Finance expense

	2018 £'000	2017 £'000
Interest payable on:		
Senior loan notes	**14,654**	14,654
Finance expense	**14,654**	14,654

12. Income tax expense

	2018 £'000	2017 £'000
Current tax expense - current year	**1,428**	2,386
Adjustment to prior years – current tax	**(126)**	1,038
Total current tax	**1,302**	3,424
Deferred tax credit - current year	**(111)**	(276)
Adjustment to prior years – deferred tax	**(51)**	511
Total deferred tax	**(162)**	235
Foreign tax	**592**	762
Total foreign tax	**592**	762
Total tax expense	**1,732**	4,421

The Finance Act 2015 reduced the future rate of UK corporation tax from 20% to 19% with effect from 1 April 2017. Furthermore, the Finance Act 2016, following its enactment in September 2016, reduced the future rate further to 17% with effect from 1 April 2020. The company's profits for this accounting period are taxed at the applicable rate of 19.00% (2017: 19.25%).

	2018 £'000	2017 £'000
Profit before taxation on ordinary activities	**18,636**	33,503
Profit before taxation on ordinary activities multiplied by the UK tax rate of 19% (2017: 19.25%)	**3,541**	6,449
Factors affecting expense for the year:		
Tax exempt income	**(42)**	(88)
Expenses not deductible for tax purposes	**277**	209
Overseas tax	**592**	761
Double tax relief	**(592)**	(666)
Adjustment to prior years – current tax	**(177)**	1,038
Adjustment to prior years – deferred tax	**-**	511
Effects of group relief from Pomegranate group	**(1,883)**	(3,827)
Effects of rate change	**17**	33
Other tax adjustments	**(1)**	1
Total tax expense	**1,732**	4,421

13. Intangible assets

	Assets under construction £'000	Software £'000	Total £'000
Cost			
At 1 January 2017	**6,111**	**6,316**	**12,427**
Additions	1,461	3,403	**4,864**
Transfers	(6,091)	8,698	**2,607**
Disposal	-	(1,359)	**(1,359)**
At 31 December 2017	**1,481**	**17,058**	**18,539**
Accumulated amortisation			
At 1 January 2017	-	**2,593**	**2,593**
Charge for the year	-	3,909	**3,909**
Impairment	-	1,735	**1,735**
Disposal	-	(1,359)	**(1,359)**
At 31 December 2017	-	**6,878**	**6,878**
Net book value at 31 December 2017	**1,481**	**10,180**	**11,661**
Cost			
At 1 January 2018	**1,481**	**17,058**	**18,539**
Additions	6,056	855	**6,911**
Transfers	(816)	816	**-**
Disposal	(635)	(385)	**(1,020)**
At 31 December 2018	**6,086**	**18,344**	**24,430**
Accumulated amortisation			
At 1 January 2018	-	**6,878**	**6,878**
Charge for the year	-	5,280	**5,280**
Impairment	-	-	**-**
Disposal	-	(377)	**(377)**
At 31 December 2018	-	**11,781**	**11,781**
Net book value at 31 December 2018	**6,086**	**6,563**	**12,649**

Management has assessed the expected contribution to be generated from the software assets and deemed an impairment adjustment of £Nil (2017: £Nil million) is required to the carrying value of the assets.

14. Property, plant and equipment

	Leasehold improvements £'000	Leasehold offices £'000	Vehicles and equipment £'000	Total £'000
Cost				
At 1 January 2017	**2,726**	-	**12,911**	**15,637**
Additions	146	-	1,312	**1,458**
Transfers	-	-	(2,607)	**(2,607)**
Disposals	-	-	(6,678)	**(6,678)**
At 31 December 2017	**2,872**	-	**4,938**	**7,810**
Accumulated depreciation				
At 1 January 2017	**9**	-	**9,440**	**9,449**
Charge for the year	270	-	1,963	**2,233**
Transfers	-		(1,735)	**(1,735)**
Disposals	-	-	(6,604)	**(6,604)**
At 31 December 2017	**279**	-	**3,064**	**3,343**
Net carrying value at 31 December 2017	**2,593**	-	**1,874**	**4,467**
Cost				
At 1 January 2018	**2,872**	-	**4,938**	**7,810**
Additions	-	-	513	**513**
Disposals	-	-	(124)	**(124)**
At 31 December 2018	**2,872**	-	**5,327**	**8,199**
Accumulated depreciation				
At 1 January 2018	**279**	-	**3,064**	**3,343**
Charge for the year	287	-	905	**1,192**
Disposals	-	-	(102)	**(102)**
At 31 December 2018	**566**	-	**3,867**	**4,433**
Net carrying value at 31 December 2018	**2,306**	-	**1,460**	**3,766**

15. Loans and advances to customers

	31 Dec 2018 £'000	31 Dec 2017 £'000
Gross loans and advances to customers	**1,407,099**	1,425,177
Less: allowance for ECLs/impairment losses	**(6,423)**	(4,481)
Net loans and advances to customers	**1,400,676**	1,420,696

Split as:

Current	**1,397,547**	1,417,609
Non-current	**3,129**	3,087

At 31 December 2018, £1,033.9 million (2017: £1,045.0 million) of the loan and advances to customers had its beneficial interest assigned to SPV entities as a collateral for securitisation transactions.

An analysis of movements in the allowance for impairment losses under IFRS 9/ IAS 39 is as follows:

	2018 £'000	2017 £'000
At 1 January	**4,481**	5,837
Reclassification	**(85)**	-
Impact of adopting IFRS 9 on opening balance	**128**	-
Revised balance at 1 January	**4,524**	5,837
Charge for impairment losses	**1,899**	-
Foreign exchange impact	**-**	14
Decrease in allowance, net of recoveries, charged to income statement	**-**	(1,370)
At 31 December	**6,423**	4,481

The table below shows stage allocation of Group's loans and advances, allowance for expected credit losses (ECLs) together with ECL coverage ratio:

At 31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers (£ '000)	**1,396,336**	**5,647**	**5,116**	**1,407,099**
Allowance for ECLs (£ '000)	**4,057**	**482**	**1,884**	**6,423**
Coverage ratio (%)	**0.3%**	**8.5%**	**36.8%**	**0.5%**

At 1 January 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers (£ '000)	1,414,032	6,644	4,501	1,425,177
Allowance for ECLs (£ '000)	3,128	394	1,002	4,524
Coverage ratio (%)	0.2%	5.9%	22.3%	0.3%

16. Prepayments and other receivables

	Group 31 Dec 2018 £'000	Group 31 Dec 2017 £'000	**Company 31 Dec 2018 £'000**	Company 31 Dec 2017 £'000
Prepayments	**12,283**	10,837	**44**	23
Amounts owed by Group undertakings	**391**	321	**14,741**	13,871
Prepayment and other receivables	**12,674**	11,158	**14,785**	13,894
Split as:				
Current	**10,988**	7,860	**44**	23
Non-current	**1,686**	3,298	**14,741**	13,871

Prepayments and other receivables of £12.7 million (2017: £11.2million) include £2.6 million (2017: £3.8 million) of fees relating to the Master Trust which are amortised over 5 years and £0.5 million of fees relating to undrawn facilities.

The Group has amounts owed by Group undertakings of £0.4 million (2017: £0.3 million) which is attributable to expenses recharged to Pomegranate Acquisitions Limited, Pomegranate Holdings Limited and Pomegranate Topco Limited which is unsecured and repayable on demand.

Company prepayments and other receivables of £14.7 million (2017: £13.9 million) consist of amounts owed by Group undertakings. The Company has a loan receivable from its subsidiary Mizzen Midco Limited of £14.7 million (2017: £13.9 million) which accrues interest at 8.135% and is repayable 30 October 2022.

17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £'000	Liabilities 2018 £'000	Net 2018 £'000
Deferred tax asset as at 1 January	**780**	**(544)**	**236**
Impact of IFRS 9	25	-	25
Revised deferred tax as at 1 January	**805**	**(544)**	**261**
Deferred tax credit/(charge) for the year attributable to:			
Deferred tax credit in respect of current year	128	-	128
Adjustments in respect of prior year	52	-	52
Effect of rate change	-	(17)	(17)
Deferred tax asset as at 31 December	**985**	**(561)**	**424**

	Assets 2017 £'000	Liabilities 2017 £'000	Net 2017 £'000
Deferred tax asset as at 1 January	**471**	**-**	**471**
Deferred tax credit/(charge) for the year attributable to:			
Deferred tax credit in respect of current year	309	-	309
Adjustments in respect of prior year	-	(511)	(511)
Effect of rate change	-	(33)	(33)
Deferred tax asset as at 31 December	**780**	**(544)**	**236**

At the end of the year the Group had tax losses available to carry forward for offset against future profits of £1.9 million (2017: £1.9 million). As there is uncertainty about whether relevant future taxable profits will exist within the individual entities going forward against which these losses can offset the deferred tax asset has not been recognised.

18. Cash and cash equivalents

	31 Dec 2018 £'000	31 Dec 2017 £'000
Bank balances	**66,149**	102,097
Cash and cash equivalents	**66,149**	102,097

The currency profile of cash and cash equivalents is as follows:

	31 Dec 2018 £'000	31 Dec 2017 £'000
GBP	**55,925**	87,620
USD	**2,248**	2,246
EUR	**7,976**	12,231
Cash and cash equivalents	**66,149**	102,097

Cash and cash equivalents include encumbered cash balances held by SPV entities (see note 27).

The external credit ratings of our banking counter parties are:

	31 Dec 2018 £'000	31 Dec 2017 £'000
AA-	**66,149**	101,344
A+	**-**	753
Cash and cash equivalents	**66,149**	102,097

19. Borrowings

	31 Dec 2018 £'000	31 Dec 2017 £'000
Non-current		
Securitisation notes	**973,847**	999,687
Senior secured loan notes	**186,027**	184,630
Borrowings	**1,159,874**	1,184,317

Securitisation notes

Funding is provided by a £1,084.5 million (2017: £1,109.5 million) securitisation facility, this includes Variable Funding Notes and two public series launched in 2017. As at 31 December 2018, £977.9 million was drawn down on the securitisation facility (2017: £1,005.2 million) less loan fees of £4.1 million (2017: £5.5 million).

Senior secured loan notes	**Issue date**	**Maturity date**	**31 Dec 2018 £'000**	31 Dec 2017 £'000
Fixed rate corporate bond	8 May 2014	1 May 2021	**186,027**	184,630

Interest is payable on the bond at a fixed rate of 7% per annum until maturity. The bond, issued by Mizzen Bondco Limited, is listed on the Irish Stock Exchange and secured by a fixed charge over certain Group assets. Debt securities are classified as non-current at the year-end. The balance consists of £189.4 million drawn down on the facility (2017: £189.4 million) less loans fees of £3.4 million (2017: £4.8 million).

20. Trade and other payables

	Group 31 Dec 2018 £'000	Group 31 Dec 2017 £'000	**Company 31 Dec 2018 £'000**	Company 31 Dec 2017 £'000
Trade payables	**412,831**	408,047	**-**	
Accrued expenses	**14,649**	16,664	**86**	-
Social security and other taxes	**1,149**	939	**-**	-
Amounts owed to Group undertakings	**991**	1,097	**489**	382
Other creditors	**444**	172	**-**	-
Trade and other payables	**430,064**	426,919	**575**	382

Split as:				
Current	**430,064**	426,919	**575**	382
Non-current	**-**	-	**-**	-

The Group has amounts owed to Pomegranate Acquisitions Limited of £1 million (2017: £1.1 million) attributable to recharged expenses. The Company also has amounts owed to Premium Credit Limited of £0.5 million (2017: £0.4 million) attributable to recharged expenses. These balances are unsecured and are repayable on demand.

21. Called up share capital

	Group 31 Dec 2018 £'000	Group 31 Dec 2017 £'000	**Company 31 Dec 2018 £'000**	Company 31 Dec 2017 £'000
32,921,166 Ordinary shares of £1	**32,921**	32,921	**32,921**	32,921
11,581,089 Preference shares of £1	**11,581**	11,581	**11,581**	11,581
Called up share capital	**44,502**	44,502	**44,502**	44,502

22. Other reserves

	31 Dec 2018 £'000	31 Dec 2017 £'000
Opening foreign currency translation reserve	**2,135**	1,405
Foreign currency translation	**379**	730
Other reserves	**2,514**	2,135

Other reserves comprise gains on the translation of financial statements of foreign operations.

23. Investment in Group undertakings

Investments – Company	31 Dec 2018 £'000	31 Dec 2017 £'000
Cost and carrying value		
At 1 January	**44,502**	44,502
Additions	**-**	-
At 31 December	**44,502**	44,502

Company	Parent entity	Country of incorporation	Nature of business	Group interest	Capital
Mizzen Midco Limited	Mizzen Mezzco Limited	UK	Holding company	100%	£2,205,000
Mizzen Bondco Limited	Mizzen Midco Limited	Cayman Islands	Bond financing	100%	£2
Mizzen Mezzco 2 Limited	Mizzen Bondco Limited	UK	Holding company	100%	£32,921,166
Mizzen Bidco Limited	Mizzen Mezzco 2 Limited	UK	Holding company	100%	£32,921,166
Vendcrown Limited	Mizzen Bidco Limited	UK	Holding company	100%	£16,258
Premium Credit Limited	Vendcrown Limited	UK	Finance services	100%	£10,000
Direct Debit Management Services Limited	Premium Credit Limited	UK	Dormant	100%	£2

The financial year end of all the subsidiaries is 31 December. All UK incorporated companies are registered at Ermyn House, Ermyn Way, Leatherhead, Surrey, KT22 8UX. Mizzen Bondco Limited is registered at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The directors are of the opinion that the carrying value of the investment is supported by the underlying assets.

The Group entered into securitisation transactions whereby it transfers assets recognised on its balance sheet to Special Purpose Vehicles (SPVs) but retains substantially all of the risks and rewards of the transferred assets and hence they are not derecognised. These securitisation transactions are to fund certain advances to customers. Although none of the equity of the SPV is owned by the Group, the nature of this entity means that the Group has the rights to all benefits from its activities and as such it is effectively controlled by the Group. All SPV entities are incorporated in England and Wales.

The assets of Mizzen Midco Limited and Mizzen Bondco Limited are subject to fixed charges associated with the debt securities issued by Mizzen Bondco Limited. There were no other charges on assets of Group subsidiaries.

24. Dividends

On Ordinary shares	2018 £'000	2017 £'000
Dividend paid £1.5188 per £1 share:(2017: £1.506 per £1 share)	**50,000**	**49,591**
Dividends paid	**50,000**	**49,591**

On 25 June 2018, £20 million of interim dividend was declared and paid and on 21 December 2018, a final dividend of £30 million was declared and paid. No further dividend has been proposed.

25. Cash generated from operations

	2018 £'000	2017 £'000
Profit before taxation	**18,636**	33,503
Non-cash items included in profit before taxation		
Loan impairment charges	**9,314**	5,580
Depreciation and amortisation	**6,472**	6,142
Loss on disposal of fixed assets	**665**	40
Finance costs – net	**33,614**	32,121
Non-cash items included in profit before taxation	**50,065**	43,883
Changes in operating assets and liabilities		
Net movement in loans and advances to customers	**10,691**	74,482
Net movement in trade and other payables	**3,251**	(8,330)
Net movement in prepayments and other receivables	**(1,239)**	(722)
Changes in operating assets and liabilities	**12,703**	65,430
Cash generated from operations	**81,404**	142,816

26. Interests in Special Purpose Vehicle entities

The business is funded by a Master Trust securitisation, which was put in place in December 2016 and became effective in February 2017, which involves five special purpose vehicle entities ("SPVs"). The SPVs issued three series of debt instruments external to the Group, backed by the cash flows of the portfolio of receivables sold to the Master Trust. As at 31 December 2018, the Master Trust has issued two series of publicly listed term debt sold to capital market investors, a senior variable funding note sold to a syndicate of four major banks ("VFN") and a mezzanine term note sold to one of these banks. These SPVs are consolidated as they were specifically set up for the purposes of the Group, and the Group has exposure to substantially all the risks and rewards of the portfolio of receivables.

The Board has determined that the SPVs are controlled by the Group as a result of the SPVs being the sole acquirer of debt obligations originated by the Group.

27. Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, liquidity risk, and market risk. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising on	Measurement	Management
Credit risk	Loans and advances to customers, Cash and cash equivalents	Staging under IFRS 9 Credit ratings	Credit checks Credit Limits Loan loss reviews
Market risk – interest rate	Long-term borrowing at variable rates	Sensitivity analysis	Contractual rate ratchets
Liquidity risk	Borrowings	Rolling cash flow forecasts	Availability of ineligible asset funding facilities
Market risk – FX rate	Financial assets and liabilities not denominated in pounds sterling	Cash flow forecast Sensitivity analysis	Concentration limits on loans and advances in Euro and US Dollars

(a) Credit risk

Credit risk arises from loan facilities in the UK and to a lesser extent in the Republic of Ireland. These facilities enable individuals to spread the cost of services, primarily insurance premiums. Loan exposure is to individuals, corporates and corporate intermediaries. The majority of lending activity is arranged by corporates and corporate intermediaries in the insurance sector, but the Group is also active in financing other instalment services such as school and leisure fees.

Credit risk is the risk that a borrower fails to pay the interest or to repay the capital on a loan. All lending is underwritten by the Group and the performance of all loans is monitored closely and regular management reports are submitted to the Board, Executive Committee and the appropriate sub-Committees.

Management and monitoring of credit risk

Credit risk is monitored by the Executive Risk Committee, a sub-Committee of the Executive Committee. Credit checks are conducted at inception and on renewal of loan facilities. Individual risk limits are set based on borrower affordability and in accordance with limits and parameters set by the Board.

Credit quality

Loans and advances to customers represent 93.5% of Total Assets at 31 December 2018 (2017: 91.5%).

The credit quality of loans and advances to customers is measured on the Staging allocation that the Group performs on its loan book. The Group staging assessment of its loans and advances portfolio is detailed in note 15.

(b) Market risk – interest rate

Exposure to interest rate risk arises from the Group funding its activities via a securitisation facility on which the rate of interest paid is variable. The Group has the ability through contractual rate ratchets to reprice future lending in the event of rate rises.

A 1% adverse movement in the interest rate on borrowing would have increased borrowing costs and reduced Group's profit before taxation by £9.8 million (2017: £10.1 million), however this would be largely offset by increased revenue from repricing of future lending via contractual rate ratchets.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amounts of committed credit facilities to enable the Group to meet obligations when due. At the end of the reporting period the Group held deposits at call of £66.1 million (2017: £102.1 million). Due to the nature of the business, the cash position is monitored daily by the Group's Treasury function which maintains flexibility in funding through availability of committed credit lines.

The table below summarises the total assets that are capable of supporting future funding and collateral needs and shows the extent to which these assets are currently pledged for this purpose.

Encumbered asset summary	**31 Dec 2018 £'000**	31 Dec 2017 £'000
Encumbered cash and cash equivalents	**36,683**	73,398
Unencumbered cash and cash equivalents	**29,466**	28,699
Cash and cash equivalents	**66,149**	102,097

An asset is defined as encumbered if it has been pledged as collateral against an existing on or off-balance sheet liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged against an existing liability.

Encumbered assets represent cash held by SPV entities.

Management monitors rolling forecasts of the Group's cash position and liquidity buffer on the basis of expected cash flows. This is carried out at entity level in the principal operating companies of the Group. The necessary level of liquid assets is monitored with balance sheet liquidity ratios and debt financing plans to ensure debt covenants are not breached. The composition of the Group's funding base is monitored against defined thresholds to further avoid funding source and maturity concentration risks. The Group prepares both short term and long-term forecasts to assess liquidity requirements covering a rolling twelve-month period and takes into account factors such as payment cycles and cyclical trade patterns. These reports support daily liquidity management and are reviewed monthly by the Asset and Liability ('ALCO') a sub-Committee of the Executive Committee.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

Variable rate	**31 Dec 2018 £'000**	**31 Dec 2017 £'000**
Expiring after more than one year (securitisation)	**106,551**	104,291
Undrawn borrowing facilities	**106,551**	104,291

The securitisation Variable Funding Note facility may be drawn down on demand on a weekly basis and is subject to the continuance of satisfactory credit ratings of the securitisation facilities.

To enhance overall funding stability and diversity, the Group places emphasis on maximising and preserving its securitisation funding sources. The Group monitors funding costs and levels, and significant trends and changes are reported to its management team via the ALCO.

Maturity profile

A maturity analysis of the undiscounted contractual cash flows of the Group's bank and other borrowings, including derivatives is shown below. These differ from the statement of financial position values due to the effects of discounting on certain statement of financial position items and due to the inclusion of contractual future interest flows.

At 31 December 2018	Repayable on demand £'000	<1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Financial liabilities						
Borrowings	-	-	-	1,230,809	-	**1,230,809**
Trade and other payables	991	427,924	-	-	-	**428,915**
Total financial liabilities	**991**	**427,924**	**-**	**1,230,809**	**-**	**1,659,724**
Financial assets						
Loans and advances to customers	-	1,397,547	3,129	-	-	**1,400,676**
Other receivables	391	-	-	-	-	**391**
Cash and cash equivalents	29,466	36,683	-	-	-	**66,149**
Total financial assets	**29,857**	**1,434,230**	**3,129**	**-**	**-**	**1,467,216**
Maturity gap	**28,866**	**1,006,306**	**3,129**	**(1,230,809)**	**-**	**(192,508)**

At 31 December 2017	Repayable on demand £'000	<1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Financial liabilities						
Borrowings	-	-	-	1,276,544	-	**1,276,544**
Trade and other payables	1,097	425,822	-	-	-	**426,919**
Total financial liabilities	**1,097**	**425,822**	**-**	**1,276,544**	**-**	**1,703,463**
Financial assets						
Loans and advances to customers	-	1,417,609	3,087	-	-	**1,420,696**
Other receivables	321	-	-	-	-	**321**
Cash and cash equivalents	28,699	73,398	-	-	-	**102,097**
Total financial assets	**29,020**	**1,491,007**	**3,087**	**-**	**-**	**1,523,114**
Maturity gap	**27,923**	**1,065,185**	**3,087**	**(1,276,544)**	**-**	**(180,349)**

Market risk – FX rate

The Group's exposure to foreign exchange rate risk arises from Premium Credit Limited's operations in the Republic of Ireland and trade receivables and payables in foreign currencies.

The Group's exposure to movements in foreign exchange rates is monitored monthly by the Asset and Liability Committee and is governed by Board approved foreign exchange rate risk management policy, which forms part of the Group's financial risk management policies. Exposures are managed by the securitisation facilities' concentration limits on trade receivables and reviews of payables denominated in foreign currencies.

As at 31 December 2018, a 2% movement in the US dollar/ GBP and EUR/ GBP exchange rates would have had a of £0.5 million (2017: £0.7 million) impact on profits.

28. Financial instruments

(a) Classification of financial instruments under IFRS9/IAS39

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments under IFRS 9/IAS39.

At 31 December 2018 under IFRS9	Mandatorily at FVTPL £'000	Amortised cost £'000	Total £'000
Liabilities			
Borrowings	-	1,159,874	**1,159,874**
Trade and other payables	-	428,915	**428,915**
Total financial liabilities	**-**	**1,588,789**	**1,588,789**
Assets			
Loans and advances to customers	-	1,400,676	**1,400,676**
Other receivables	-	391	**391**
Cash and cash equivalents	-	66,149	**66,149**
Total financial assets	**-**	**1,467,216**	**1,467,216**

At 31 December 2017 under IAS 39	Designated at fair value through profit and loss £'000	Loans and receivables £'000	Other financial instruments at amortised cost £'000	Total £'000
Liabilities				
Borrowings	-	-	1,184,317	**1,184,317**
Trade and other payables	-	-	426,919	**426,919**
Total financial liabilities	**-**	**-**	**1,611,236**	**1,611,236**
Assets				
Loans and advances to customers	-	1,420,696	-	**1,420,696**
Other receivables	-	321	-	**321**
Cash and cash equivalents	-	102,097	-	**102,097**
Total financial assets	**-**	**1,523,114**	**-**	**1,523,114**

(b) Fair values

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded on the Statement of Financial Position are approximately equal to their fair values.

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities				
Borrowings	184,855	973,847	-	**1,158,702**
Trade and other payables	-	428,915	-	**428,915**
Total financial liabilities	**184,855**	**1,402,762**	**-**	**1,587,617**
Assets				
Loans and advances to customers	-	1,400,676	-	**1,400,676**
Other receivables	-	391	-	**391**
Total financial assets	**-**	**1,401,067**	**-**	**1,401,067**

At 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities				
Borrowings	193,778	999,687	-	**1,193,465**
Trade and other payables	-	426,919	-	**426,919**
Total financial liabilities	**193,778**	**1,426,606**	**-**	**1,620,384**
Assets				
Loans and advances to customers	-	1,420,696	-	**1,420,696**
Other receivables	-	321	-	**321**
Total financial assets	**-**	**1,421,017**	**-**	**1,421,017**

The valuation techniques and inputs used to derive fair values at the year-end are described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where an active market is considered to exist, fair values are based on quoted prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and consistent with accepted economic methodologies for pricing financial instruments.

In each case the fair value is calculated by discounting future cash flows using benchmark observable market interest rates based on LIBOR rather than Overnight Index Swaps (OIS), as using OIS would have no significant impact. This is kept under review.

There are three levels to the hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

29. Capital resources

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business.

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and long-term strategic objectives;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for its stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group sets the amount of capital based on the Board's view of perceived credit risk, future cash needs and the availability and cost of external financing. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as corporate bonds, or allow loans and receivables to mature without subsequent advancement. The Group is not subject to any externally imposed capital requirements.

The debt and equity amounts for the Group at 31 December 2018 and 31 December 2017 were as follows:

	Notes	**31 Dec 2018 £'000**	31 Dec 2017 £'000
Debt			
Securitisation notes	19	973,847	999,687
Senior loan notes	19	186,027	184,630
Amounts owed to Group undertakings	20	991	1,097
Less: unencumbered cash	27	(29,466)	(28,699)
Net debt		1,131,399	1,156,715
Equity			
Total equity		**(92,163)**	**(59,343)**

The Group uses a number of non-GAAP debt ratios which can be seen on page 88.

30. Related party transactions

During the year the Group had the following transactions with Group undertakings:

(a) Transactions involving Directors and other key connected persons

For the purposes of IAS 24 "Related Party Disclosures", key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of an entity; the key management of the Group are the members of the Group's Board and Executive Committee. There were no loans or advances to key connected persons in the Group's primary financial statements (2017: £Nil).

(b) Remuneration of key management personnel

The amount of remuneration incurred by the Group in relation to key management is set out below in aggregate. The remuneration of the Directors is set out in note 9. With the exception of the Chief Executive, the Chief Finance Officer, the directors' and key management are not the same body of persons. Further information in respect of key management personnel at the date of signing the financial statements is included in the Governance report.

	2018 £'000	2017 £'000
Short-term employee benefits	3,147	3,257
Termination benefits	765	527
Total emoluments	**3,912**	**3,784**

The costs of senior management personnel are borne by Premium Credit Limited.

Short term employee benefits comprise salary, bonus, pension contributions and benefits, earned in the year.

(c) Trading transactions

During the year, the Group entered into the following transactions with Group undertakings:

	Interest paid	Interest paid	Service fees	Service fees	Travel expenses	Travel expenses
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Cinven	-	-	353	360	-	6

Amounts owed to and from Group undertakings are identified in notes 16 and 20.

(d) Ultimate parent undertaking and controlling party

At 31 December 2018, the Group's ultimate parent undertaking was Pomegranate Topco Limited which is incorporated in Jersey and the Board considers the ultimate controlling party to be The Fifth Cinven Fund which is managed by Cinven Capital Management (V) General Partner Limited.

(e) Immediate parent undertaking

The Company's immediate parent company is Pomegranate Acquisitions Limited which is incorporated in England and Wales. Financial statements for Pomegranate Acquisitions Limited can be obtained from its registered office at Ermyn House, Ermyn Way, Leatherhead, KT22 8UX.

31. Contingent liabilities and commitments

a) Capital commitments

At 31 December 2018, the Group had capital commitments related to intangible assets of £0.8 million (31 December 2017: £1.0 million). This is in respect of IT software development and IT hardware.

b) Operating lease commitments

The Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights, and fall due as follows:

	Land & Buildings		Other	
	31 Dec 2018 £'000	31 Dec 2017 £'000	**31 Dec 2018 £'000**	31 Dec 2017 £'000
No later than one year	**906**	584	**201**	**145**
Later than one year and no later than five years	**3,869**	3,813	**232**	**146**
Over five years	**2,660**	3,627	**-**	**-**
Operating lease commitments	**7,435**	8,024	**433**	**291**

Under the terms of the lease agreements, no contingent rents are receivable. The leases have varying terms including purchase options and renewal rights. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

32. Post balance sheet events

There were no post balance sheet events.

D: OTHER INFORMATION

D1: Corporate Information

Directors	Thomas Woolgrove Anthony Santospirito Andrew Chapman
Company Secretary	Elizabeth Annys
Registered Office	Ermyn House Ermyn Way Leatherhead Surrey KT22 8UX
Investor Relations	investor@pcl.co.uk
Solicitors	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HT
Bankers	HSBC Bank PLC 8 Canada Square Canary Wharf London E14 5HQ
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

D2: Non GAAP debt ratios

The Group has a number of non-GAAP debt ratios that are monitored and reported under the terms of the Senior secured term notes.

	2018 £'000	2017 £'000
Adjusted Post-Securitisation EBITDA[1]	**60,568**	71,658
Cash interest expense (excluding securitisation)[2]	**13,258**	13,258
Gross debt	**189,400**	189,400
Cash and cash equivalents[3]	**(29,466)**	(28,699)
Net debt	**159,934**	160,701
Ratio of gross debt to Adjusted Post-Securitisation EBITDA	**3.1x**	2.6X
Ratio of net debt to Adjusted Post-Securitisation EBITDA	**2.6x**	2.2X
Ratio of adjusted Post-Securitisation EBITDA to cash interest expense (excluding securitisation)	**4.6x**	5.4X

1. The calculation and full definition of Adjusted Post-Securitisation EBITDA is in section A7.3 on page 19.
2. Cash interest expense (excluding securitisation) is pro forma calculation of interest for the senior secured loan notes (gross debt multiplied by the fixed interest rate of 7%)
3. Cash and cash equivalents relates to unencumbered cash of £29.5 million (2017: £28.7 million) as per note 27 (c).

The amount drawn down on the securitisation facility is linked to the level of eligible trade receivables and is therefore linked to the operations of the business. The above debt ratios include the securitisation interest expense in Adjusted Post-Securitisation EBITDA.