Mizzen Mezzco Limited

Annual Report and Financial Statements

for the year ended 31 December 2019

Registered Number: 08179245

CONTENTS

Mizzen Mezzco Limited
Company number: 08179245

Ermyn Way
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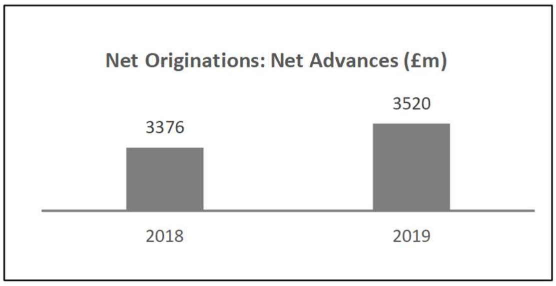
England

www.premiumcredit.com

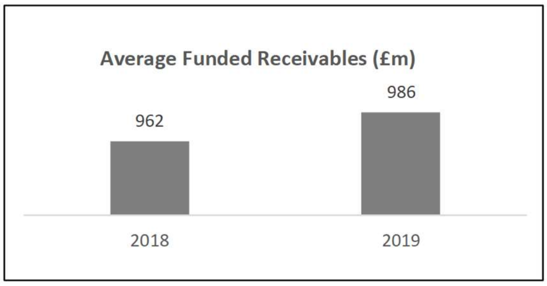
About

Mizzen Mezzco Limited ('the Company') and its subsidiaries (together 'the Group') is a financial services group. Premium Credit Limited ('PCL') is the Group's principal trading subsidiary.

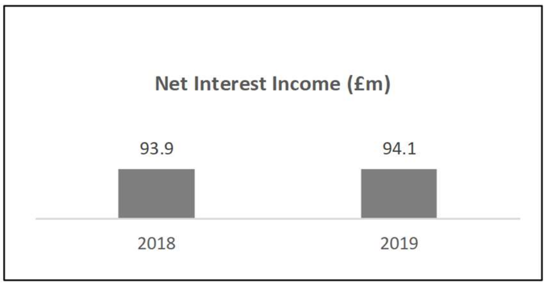
FINANCIAL HIGHLIGHTS



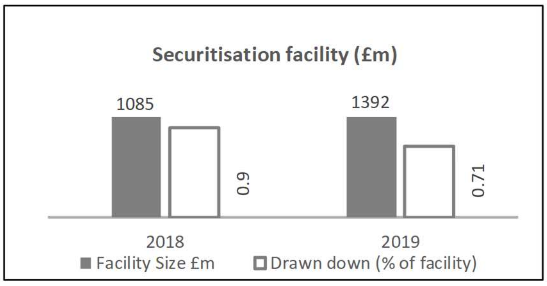
Net advances measure the total value of loans initiated, net of cancellations and mid-term adjustments.



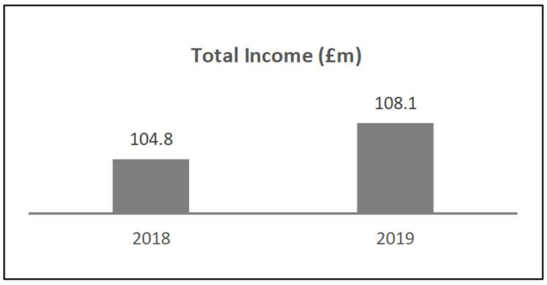
A key gauge of future income and cash flows is average funded receivables which measures the average outstanding funded principal loan balances for the year.



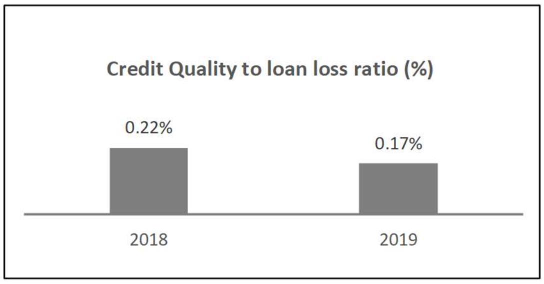
Interest income growth reflects growth in funded principal balance, partly offset by higher cost of funds due to base rate rises.



Availability of funding to facilitate growth in the loan book is measured via the level of utilisation of our securitisation programme.

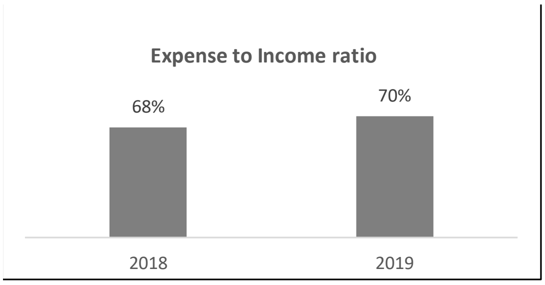


Highlights the growth the business's growth reflecting growth in both the funded principal balance, increased levels of cost recovery.

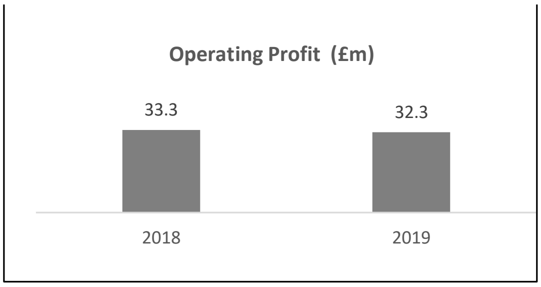


Measure of the quality of the business's loan book, dividing the value of impaired loans by the value of Net Advances written in the year.

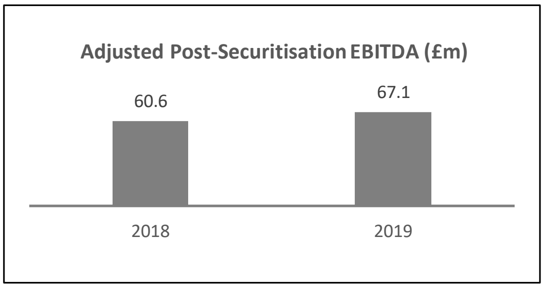
FINANCIAL HIGHLIGHTS (continued)



Represents operating leverage and is calculated as total administrative expenses as a proportion of total income.



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



Adjusted Post-Securitisation EBITDA is a profit measurement that excludes certain non-cash items, non-recurring costs, foreign exchange gains/losses, tax and interest, other than the interest costs incurred as part of our securitisation programme, which are considered an operational expense.

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 year or any other performance measures derived in accordance with IFRS. These measures are used by management in its day to day overview of the business and the Board believes that these measures give a more rounded indication of the operating performance of the Group.

2019 Financial Highlights

The trading performance in 2019 was strong with Adjusted Post-Securitisation EBITDA increasing by 10.7%, as the business was able to benefit from the significant investment made over recent years.

Net advances grew 4% year on year, with continued growth in our distribution partners, aided by enhanced onboarding of new customers in insurance premium finance and new products within specialist lending (Commuter Club launch and direct tax expansion). Towards the end of 2019, we started initiatives to increase the penetration of premium finance within existing partners, which we expect to be reflected in 2020 performance.

Total income grew 3% year on year, as new facility fees were offset by lower chaser and default fees. However, the lower chaser and default fees are themselves offset by better credit performance. Credit performance was, in fact, very strong in 2019, driven by underlying performance (strong underwriting) and provision releases (effective collections function). We believe these changes will continue to have a positive impact on performance in 2020 which is likely to have a more challenging macro-economic backdrop.

These factors, with control of operating costs, whilst continuing to invest in the business, led to 11% Adjusted-Post-Securitisation EBITDA growth. We expect new investment in technology to diminish in the coming years, as much of our digital infrastructure is now well established and fully operational.

For further information on the financial performance of the Group, refer the *Business Review* section on page 12.

A: STRATEGIC REPORT

A1: Our Business Model

Our Business and Vision

Premium Credit Limited, the Group's principal trading subsidiary, is a specialty provider of instalment financing to support the purchase of largely non-discretionary insurance premiums and a range of annually charged services, including professional memberships and golf club memberships, tax, school fees and season tickets. We lend over £3 billion each year to over 2 million customers through a network of more than 3,000 partners.

At Premium Credit, we aspire to be the trusted payments and finance provider in our chosen markets, delivering affordable solutions through seamless technology to facilitate the daily needs of our customers.

Our End Customers

We provide critical products to our end customers, allowing them to make the annual cost of mandatory or important payments more affordable, by spreading them over regular instalments. We serve over 2 million retail, SME and corporate clients, with a focus on good customer outcomes. This is reflected in our suite of customer satisfaction scores, for example we are rated "Excellent" on Trustpilot.

Our Distribution Partners

We have a diversified network of over 3,000 partners, who outsource the provision of instalment finance to Premium Credit. Our partner types span insurance brokers, insurance providers, membership organisations, schools and leisure facility providers. As a B2B2C provider, we have high brand awareness within our strong partner networks. Our relationships with partners are long-term and multi-facetted across their sales, operations and IT functions. Partners choose to outsource and work with us given our track record of reliable service, significant investment in IT integration for seamless customer journeys, and strong focus on regulatory compliance.

Our Market and Position

Premium Credit serves two key end markets: (i) finance for insurance premiums ('Insurance Premium Finance') and (ii) finance for other annually charged services, including professional memberships and golf club memberships, tax, school fees and season tickets ('Specialist Lending').

Insurance Premium Finance

We operate in the UK and Ireland, predominantly through insurance brokers, funding non-life premiums. The total broker market in the UK for non-life gross written premiums ('GWP') is c. £24 billion, growing broadly in line with GDP. The total third party provided premium finance market is estimated at c. £7 billion and Premium Credit is one of the market leaders in insurance premium finance with a 44% market share. Premium finance has historically grown at a faster rate than GWP, driven by increased penetration of the product. Alternative forms of finance, such credit cards and overdrafts, often attract higher rates than premium finance.

Over half of our distribution partners have worked with us for over 10 years. Beyond increasing penetration of premium finance within existing broker partner base, we are also driving growth through other providers of insurance. For example, we are working more directly with insurers who are looking to outsource the provision of premium finance given increased regulatory requirements.

Specialist Lending

Our specialist lending products exhibit similar attributes to insurance premium finance: making important policies such as professional memberships and school fees affordable. Across all of our products, the penetration of instalment finance is very low, representing significant market opportunity. Across just schools, tax and golf memberships, we estimate there is a total market of over £240 billion payments per year, largely made up of Corporation tax and VAT funding.

Our competitors in insurance premium finance are less active in this channel.

Our Unique Business Model

Our unique business model creates high barriers to entry, evidenced through long-term customer and partner relationships and our strong financial performance.

Our digital investment

We have made material investment over the last 5 years to deliver our digital offering. Our technology platforms enable point of sale financing with real-time decision making, either fully integrated within our partners' systems or seamlessly supported with customer and partner portals. For many partners, our platform becomes an integral part of their payments system. Last year, we made 12.5m real-time finance quotes, and facilitated 25 million direct debits.

We have made significant investment in our cyber protection infrastructure.

Our regulatory and compliance culture

Premium Credit is authorised and regulated by the Financial Conduct Authority for Consumer Credit Lending and Broking in the UK, and by the Central Bank of Ireland as a Moneylender in Ireland. We are the only insurance premium finance provider accredited by the British Insurance Broking Association (relationship for over 15 years), and have held preferred supplier status with Broker Ireland for over 5 years.

Our focus at Premium Credit is on strong customer outcomes. We assess customer affordability on all loans, and perform an enhanced assessment on larger loans and higher risk customers. We ensure fair treatment to customers through clear customer messaging, and though our focus is on digital, we ensure we can still serve customers as required through more traditional channels.

Our credit expertise and multiple layers of credit protection

Our credit loss rate in 2019 averaged 0.17% of our net advances (2018: 0.22%). Our loss rates are significantly lower and less volatile than other forms of consumer finance, given the combination of our credit expertise as well as a number of layers of credit protection embedded in the majority of our products.

On a significant proportion of our products, the underlying policy is cancelled if the service is not paid for. In the event the customer does not pay, in the first instance Premium Credit either has recourse to the distribution partner, or Premium Credit seeks repayment from the underlying insurer / service provider.

Our track record

These elements, in addition to our focus on critical products, drive consistent performance through-cycle with strong cash conversion. Net advances have grown from £1bn in 2000, to £3.5bn today. The business model is well-protected through economic downturns, as demonstrated in the 2008 financial crisis, where loss rates increased from c.20bps average to c.40bps.

Maintaining a secure, diverse and stable funding structure

Funding is provided by a £1,391.5 million (2018: £1,084.5 million) securitisation facility, which includes a VFN Facility extended in 2019 and two public term notes launched in 2017. As at 31 December 2019, £988.2 million was drawn down on the Securitisation Programme (2018: £977.9 million), less loan fees of £2.1 million (2018: £4.1 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'). In October 2019, the business agreed the extension of the VFN facility issued by PCL Funding I Ltd until October 2024 and increased the facility size to £826.0 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.

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, the former subsequently being transferred into the VFN Facility in June 2020.

Environment

We continue to comply with all applicable environmental laws and regulations and be committed to the further reduction of physical waste within the business through improved recycling. We continue to invest in digital solutions for our customers and encourage the use of mobile devices, and projectors and screens in meetings.

During 2019, we have reduced our carbon footprint through technological developments, enabling a substantial reduction in printing and postage; further we reduced plastic waste via the introduction of incentive schemes to facilitate the re-use of plastics. The Group has also begun to measure the impact of business-related travel between both our sites and to our intermediaries' offices and seeking where possible to minimise this through the use of alternative technologies.

We work actively with industry bodies, regulators, and other relevant stakeholders to ensure its services are relevant to disadvantaged and financially excluded people and communities. 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.

Our Future

We comment below on our performance so far in 2020 in the light of the Covid-19 epidemic. Notwithstanding, the short term difficulties, this causes over the coming years, we expect to continue to benefit from our material technology investment to date. We will continue to drive growth in existing distribution partners, though continued roll out of our latest payment technology and frontline training to increase penetration of our financing products. We will also grow through new distribution partners, expanding our presence across insurers and other types of distribution partner. We will continue to expand specialist lending, in particular exploring cross-sale opportunities.

Topline growth will be complemented by operational efficiency, as processes continue to digitise and we increase the operating leverage in the business.

Our ambition is to become the trusted payments and finance provider in our chosen markets. Longer-term, we could look to explore routes to diversify our business into a broader digital credit offering (e.g. POS finance, broker lending, insurer payment services, etc.), either organically or by acquisition. We could also consider international expansion, as premium finance is well established in other international markets (e.g. the United States).

A2: Our Strategy

Our strategy is to enhance our strong market position by offering financing that addresses our customers' needs, whilst enhancing further our already strong relationships with our intermediary partners. We believe by doing this we will grow our business through increased penetration in our existing markets and new profitable growth opportunities. We intend to achieve this by pursuing the following strategic priorities.

Create frictionless journeys for our end-customers and intermediary partners
We believe it is important to understand and simplify each step of our customers' and intermediary partners' journeys with us. In order to optimise these journeys, we focus on utilising technology-led processes designed to streamline customer experiences through automation, simplification and increased efficiency. Through improving our product offerings and increasing customer and intermediary integration, we intend to improve end-to-end service and convenience, thereby maximising our conversion rate, while increasing the likelihood of customers and intermediary partners renewing their business with us – ultimately permitting further growth in our business operations without a corresponding increase in cost.

Drive long-term value
We strive to create a commercial mindset that is pervasive across the business and focused on identifying and improving the controls in place to generate income, improve margins and manage cost. First, we identify key decision points in the business through which money flows. Once identified, we analyse current controls in place, identify gaps that can be addressed to promote value creation and plan and execute a revitalised approach or system. In 2019 for example, we have set up a commercial committee composed of senior Executives, we have centralised our purchasing processes, and we have improved our ability to process documents signed electronically.

We regularly monitor developments in the insurance premium and service fees financing market, and the actions of our competitors, in order to ensure that we are strategically positioned to maintain the highest standards for our customers and create the most value going forward. Furthermore, we regularly liaise and coordinate with our intermediary partners, leveraging deep knowledge of consumer trends, in order to devise strategies to enhance our position in the markets in which we operate.

Reinforce industry leading profile and proposition
We have regularly been recognised as one of the market leading providers of financial services. Our goal is to continually reinforce and strengthen our market perception and remain the ‘go to’ provider in chosen markets with clearly articulated propositions for all current and future partners and their customers that are linked to the frictionless journeys. We are creating a step change in market visibility, thought leadership and partner relations, particularly partnering with industry bodies.

Further embed a high-performance culture framework
We believe that having a high performance culture within the business is integral to continued success in the financial services market overall. Therefore, in addition to focusing on our products and services, we will continue to focus on our people. We have designed a people framework which is underpinned by our values and behaviours, which will then drive all of our development programmes, to be available for all employees at all levels. These behaviours and core competencies are reinforced through reward and recognition programmes, and key indicators, regularly captured via colleague surveys. We strive to increase employee engagement which we believe will ultimately improve employee performance and foster the empowerment necessary to develop future leaders at Premium Credit.

Principles underpinning our strategic priorities
Our priorities are underpinned by five principles which support the business's growth and ethos; (i) customer and partner-oriented service and support, (ii) secure technology and physical environment, (iii) regulatory compliant processes, (iv) strong governance and oversight and (v) robust financial control and funding.

We believe that through prioritising and aligning our practices with these principles, we will continue to strengthen our industry leading profile. We have maintained and will continue to maintain rigorous internal procedures to ensure we follow best practices which we believe will allow us to continue to satisfy the applicable compliance standards and regulatory requirements. We will continue to monitor the actions of our intermediary partners via our dedicated intermediary management team to ensure their interactions with our customers are ethical, in compliance with applicable regulatory requirements and consistent with our high standards.

Market impact of Covid-19 pandemic
During the first half of 2020 the outbreak of Covid-19 has caused material disruptions to the UK economy, including the markets serviced by the Group. We have worked closely with the regulators and industry bodies to take appropriate actions in order to help those customers that need forbearance. We have also updated our underwriting processes to take into account specific Covid-19 risks. Demand for premium finance remains strong with our products providing consumers and SME's relevant and flexible financing solutions to assist in the management of their liquidity through this period of economic uncertainty.

The staff of Premium Credit successfully transitioned to a working from home environment during March 2020 and this continues to run smoothly. The Company is well-positioned with strong capital, funding and liquidity resources.

A3: Operating for the benefit of all our stakeholders

In accordance with section 172 of the Companies Act 2006, the Board manages the needs and concerns of all stakeholders, as outlined in the following sections, to ensure there is visibility of relevant stakeholder engagement activities within the boardroom which informs decision-making and the delivery of the Group's strategy.

The Board's approach

By understanding the differing needs and concerns of our stakeholders through proactive engagement, the Board can then ensure careful consideration of the potential impact of their decision-making on each stakeholder group. Detailed below are the Company's key stakeholders, their material interests, how we engage with them and key outcomes delivered for each group in 2019.

Customers

Our aim is to offer a seamless experience to our customers from the moment they select a product offered by one of our intermediary partners, to the last of their monthly payments, in a regulatory-compliant journey. In 2019 we delivered an increase in integrated origination capabilities, improved our online self-service capabilities, and introduced a request for feedback after each interaction with our customer services.

Colleagues

We consider our workforce to be a fundamental asset of the Company, which is critical to the success of the business. We invest and develop talent and the Board has considered the interest of the employees throughout the year in key decisions such as realigning functional areas to where they best sit within the operating model.

The Board constantly endorses high values of business conduct, by undertaking activities such as designing, developing and embedding a competency framework that enables us to achieve superior results, and by aligning performance and behaviours to purpose, values and core strategic outcomes.

Intermediary partners

Aside from regular meetings, performance reviews and the provision of insights through the use of data analytics, in 2019 the business engaged external advisors to interview its largest intermediary partners gaining additional insights into the services the business provides. This information was presented to the Board, allowing it to consider these findings when determining the strategic priorities of the business during the year.

Shareholders

Our value-creation activities have been updated during the year as Premium Credit continues to reshape itself through enhanced technology and business processes. The drivers of the value creation processes for our shareholders come from a commercial mindset that is pervasive across the business; identifying and improving the controls in place to generate income, improve margins and manage costs, thereby ensuring all sources of value are protected and well managed.

The business generates long-term value for its shareholders by ensuring all decisions made are aligned to its long-term priorities. The Board ensures this happens through its engagement with the Executive at regular board meetings and through one to one meetings with members of the Executive.

Debt investors

The business aims to deliver sustainable returns to its funders. It engages with its investor base through monthly (for asset-backed securities) or quarterly (for senior notes) reporting, investor presentations and non-deal roadshows. The senior notes were refinanced over 12 months prior to maturing debt, whilst the business asset-backed securities were extended and increased in an extent commensurate with the growth of our receivables book.

Regulators

The business works actively with its regulator as well as industry bodies and other relevant stakeholders to ensure its services remain at the forefront of compliance. In 2019 we continued to refine our approach to affordability in lending decisions, and introduced compliance with the Senior Managers and Certification regime. Colleagues receive quarterly compliance training with modules during the year including financial crime, anti-money laundering & bribery and competition law.

Community

We have an active Corporate Social Responsibility committee of volunteers who meet regularly to discuss initiatives and to identify opportunities for the Company to deliver economic, social and environmental benefits. Each year the Company selects local charities to partner with; in 2019 the Company supported Age Concern Epsom & Ewell and the Samaritans Leatherhead. The Company also supports colleagues who fundraise by matching their funds and offers a 'give as you earn' (GAYE) scheme.

During 2019 we increased our environmental engagement reviewing and updating our processes to improve our carbon footprint. We have done this by incentivising employees to reduce non-reusable plastics, improving in-house technologies to cut down on printing and postage, and implemented a monitoring programme for the reduction of business-related travel.

The Board and its committees are comfortable that all needs and concerns of all stakeholders are managed effectively and there is visibility of relevant stakeholder engagement activities within the boardroom to inform decision-making and the delivery of strategy.

A4: Business Review

A4.1: Financial Review

The Group's controlling party, Cinven Partners ('Cinven'), is a UK private equity fund. Accordingly, the Annual Report and Financial Statements for 2019 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.

The trading performance in 2019 was strong with Adjusted Post-Securitisation EBITDA increasing by 10.7%, for the Group, as the business was able to benefit from the significant investment made over recent years.

Net advances grew 4% year on year, with continued growth in our distribution partners, aided by enhanced onboarding of new customers in insurance premium finance and new products within specialist lending (Commuter Club launch and direct tax expansion). Towards the end of 2019, we started initiatives to increase the penetration of premium finance within existing partners, which we expect to be reflected in 2020 performance.

Interest income growth reflects growth in funded principal balance, partly offset by higher cost of funds due to base rate rises.

Total income grew 3% year on year, as new facility fees were offset by lower chaser and default fees. However, the lower chaser and default fees are themselves offset by better credit performance.

Credit performance was, in fact, very strong in 2019, driven by underlying performance (strong underwriting) and provision releases (effective collections function).

These factors, with control of operating costs, whilst continuing to invest in the business, led to 11% Adjusted Post-Securitisation EBITDA growth.

Group Results

	Group Year ended 31 Dec 2019 [1] £m	Group Year ended 31 Dec 2018 £m	Change £m	Change %
Net interest income	**94.1**	93.9	0.2	0.2%
Expenses [2]	**75.8**	71.5	4.3	6.0%
Operating profit	**32.3**	33.3	(1.0)	(3.0%)
EBITDA [3]	**64.3**	60.4	3.9	6.5%
Adjusted EBITDA [3]	**82.9**	74.9	8.0	10.7%
Adjusted Post-Securitisation EBITDA [3]	**67.1**	60.6	6.5	10.7%

1. The Group adopted the requirements of IFRS 16 *Leases* on 1 January 2019, under the modified retrospective approach. Financial year 2018 therefore includes operating lease costs under IAS 17 and Financial year 2019 includes depreciation and interest charges on right-of-use assets and lease liabilities.
2. Expenses includes administrative expenses and net impairment losses on loans to customers.
3. EBITDA, Adjusted EBITDA and Adjusted Post-Securitisation EBITDA are profit measurements which are not specifically defined under or presented in accordance with IFRS, or any other Generally Accepted Accounting Principles and that excludes certain non-cash items, non-recurring costs, foreign exchange gains/losses, tax and interest, other than the interest costs incurred as part of the Company's securitisation facility.

Net interest income

Net interest income comprises interest earned less securitisation costs. The increase for the financial year was due to an increase in the average funded receivable balance of 2.5%; and an increase in net loans to customers (receivables) of 3.2% at year-end to £1,445.4 million (2018: £1,400.7 million). This was partly offset by higher cost of funds due to base rate rises.

Expenses

Administrative expenses of £76.9 million (2018: £69.6 million) and impairment losses of £1.1 million (2018: £1.9 million) have increased by £4.3 million to £75.8 million (2018: £71.5 million) due to £3.8 million (2018: £nil) costs incurred in the refinancing of the borrowings at Mizzen Bondco Limited, an increase in staff and non-cash (depreciation, amortisation and foreign exchanges gains/losses) costs of £3.2 million and £4.0 million respectively, offset by a decrease in credit losses and provision of £4.5 million to £4.8 million (2018: £9.3 million).

Operating profit

Operating profit is net interest income, net fee and commission expense, less administration expenses. Fee and commission income were higher year-on-year driven by an increase in the default fee which reflects the increase in the costs of processing failed payments offset by the costs incurred in the refinancing of the borrowings at Mizzen Bondco Limited.

Working capital

Loans to customers have increased by 3.2% to £1,445.4 million at 31 December 2019, reflecting the increase in net advances in the year. The primary source of funding for loans to customers is the business's securitisation facility. Trade payables have increased by 7.6% to £462.9 million which are primarily amounts payable to intermediaries. Overall, changes in operating assets and liabilities have resulted in a cash operating inflow of £46.7 million in the year, which is an increase from 2018 of £34.7 million.

Cash

At 31 December 2019 the Group had a cash balance of £85.3 million, an increase of 29% from 2018 (£66.1 million). The Group made £nil dividend payment in 2019 (2018: £50.0 million). Of the year end cash balance:

- Unencumbered cash balances represented £54.5 million (2018: £29.5 million). The movement in the unencumbered cash balance over the prior year is notably led by the decision to retain cash in the business to facilitate some of the Group's refinancing opportunities, in line with the Group's press release in June 2019.
- Encumbered £30.7 million (2018: £36.7 million). 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.

A5.2: Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA)

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

£'000	Note	2019	2018
Operating profit		**32,288**	33,282
Finance income		**9**	8
Finance expense	**10**	**(14,975)**	(14,654)
Profit for the year before taxation		**17,322**	18,636
Interest payable and similar charges[1]		**35,332**	33,614
Depreciation and amortisation	**8**	**7,934**	6,472
Loss on disposal of fixed assets	**8**	**-**	665
Loss on foreign exchange	**8**	**2,846**	310
Refinancing fees		**856**	676
EBITDA		**64,290**	60,373
Transaction costs		**360**	353
Business interruption costs		**659**	2,802
New IT initiatives and restructuring costs		**17,558**	11,325
Adjusted EBITDA		**82,867**	74,853
Securitisation interest expense		**(15,753)**	(14,285)
Adjusted Post-Securitisation EBITDA		**67,114**	60,568

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

- EBITDA represents profit for the year 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 year 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 including restructuring costs. You should be aware that, as an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA. The Group 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 the Group's 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, the Group encourages you to evaluate each adjustment and the reasons it considers 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.

[1] Interest payable and similar charges comprises Interest expense and Finance income and expenses.

A5.3: Non-Financial Review

Leadership

There were a number of changes during the year at the executive level of the business. These included Tara Waite joining as Chief Executive Officer, Jon Howells as Chief Commercial Officer for premium finance, Owen Thomas as Chief Sales Officer and Josie Pileio as Chief People Officer & Shared Services Director. This enhanced leadership team brings with it significant and proven performance management skills, business transformation knowledge and strategic market expertise

Average tenure of employees

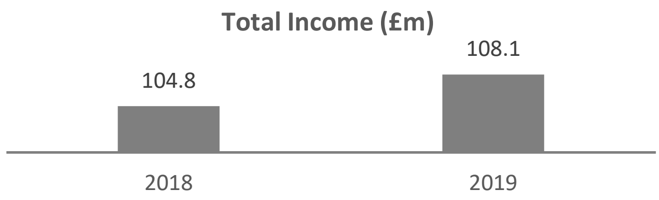
The average tenure of employees measures the average length of service across the workforce. We are pleased that the average tenure of 6.2 years in 2019 represents an increase over 2018. Evolution of the organisation design has continued, through the outsourcing of some operational functions. Voluntary labour turnover reduced progressively during 2019 resulting in greater levels of stability. Based on tenure at the end of 2019, there is a good mix of employees with long tenure, and therefore Company experience, and newer colleagues who bring new skills to the business.

Customer complaints

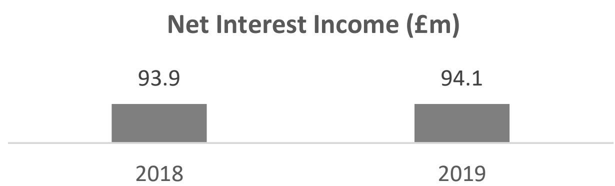
The Group maintains two key performance indicators for customer complaints: complaints it receives directly from customers, which is measured per 100,000 agreements and the number of complaints referred to the Financial Ombudsman Service (FOS). In 2019, the Group received 342 complaints per 100,000 agreements, an increase on the 2018 rate of 199 complaints per 100,000 agreements. The uplift followed a change in our internal complaint process in line with FCA requirements to also manage producer referrals. 46 complaints were made to the FOS (0.002% of the customer base), of which 30 were upheld in favour of the Company, four in favour of the customer, with the remaining twelve awaiting outcome.

The Group remains focused on delivering fair outcomes for all customers and introduced root cause analysis with corrective action tracking during 2019.

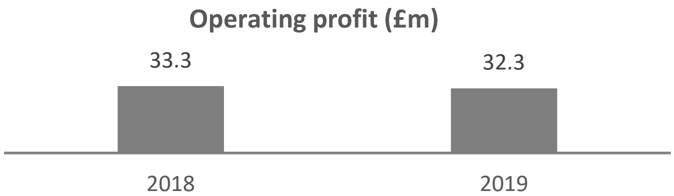
A6: Key Performance Indicators



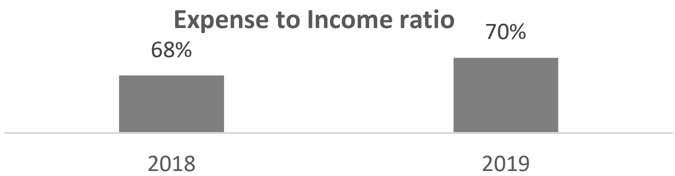
Total income comprises interest and fee income from loans after the deduction of interest expense on borrowings and commissions payable.



Interest income growth reflects growth in funded principal balance, partly offset by higher cost of funds due to base rate rises.

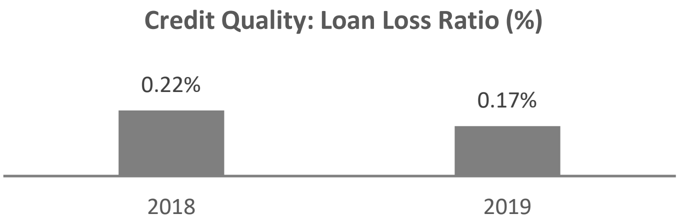


Operating profit measures the Group's total revenue less the total administrative expenses; and excludes any financing income or expense.



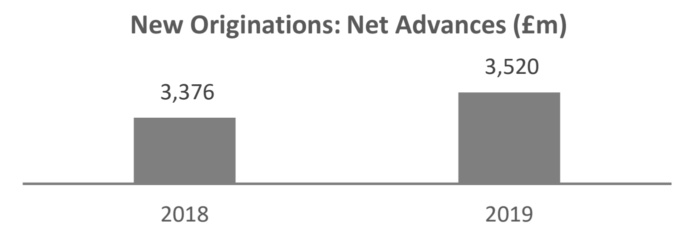
Represents operating leverage and is calculated as total administrative expenses as a proportion of total income.

Adjusted Post-Securitisation EBITDA is a profit measurement that excludes certain non-cash items, non-recurring costs, foreign exchange gains/losses, tax and interest, other than the interest costs incurred as part of the Group's securitisation facility. The full definition is shown on page 14.

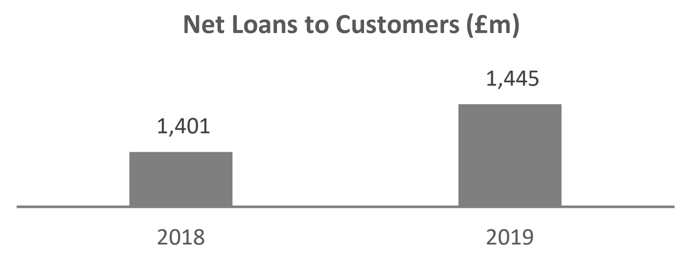


A measure of the credit quality of the loan book, the loan loss ratio is calculated as the impairment loss on customer advances divided by the net advances in the year.

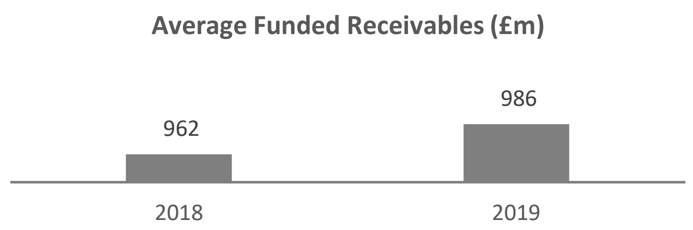
Key Performance Indicators (continued)



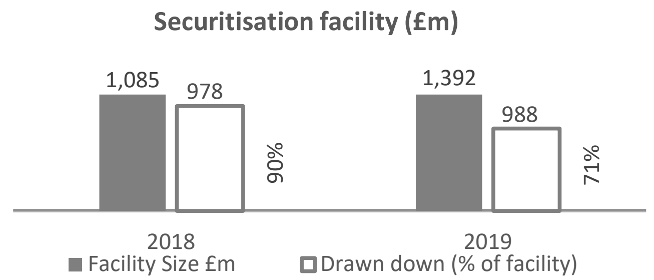
Net advances are a lead indicator of the future income that will be generated by the business and is measured by the total value of loans initiated, net of cancellations and mid-term adjustments.



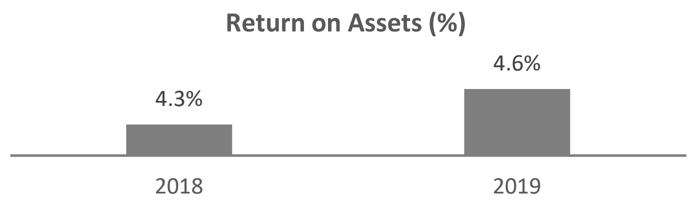
Net Loans to Customers measures the outstanding loan value at the balance sheet date and is a principal indicator of future income and cash flows.



A key gauge of future income and cash flows is average funded receivables which measures the average outstanding funded principal loan balances for the year.

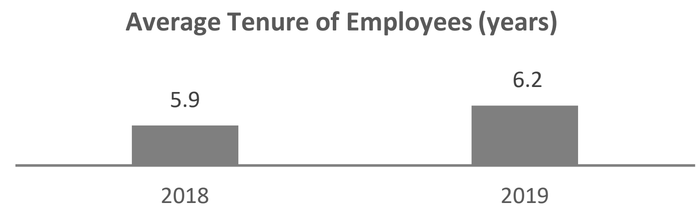


Availability of funding to facilitate growth in the loan book is measured via the level of utilisation of the securitisation facility.

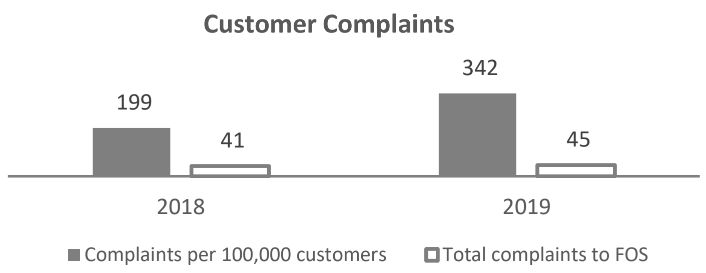


Return on assets is calculated as Adjusted Post-Securitisation EBITDA divided by average net loans to customers in the year.

Key Performance Indicators (continued)



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



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).

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 year 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: Principal risks and mitigation

The Group is exposed to a variety of risks through its day to day operations. The principal risks and how they are managed, is detailed below:

Description	Key mitigants
Regulatory and Conduct Risk – Fair Outcomes	
Conduct Risk is the risk that our operating model or those of our intermediary partners might lead to unfair outcomes for our customers.	The Group has 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 our customers, together with actions to address any unfairness. In addition, the Executive Risk Committee focuses on monitoring detailed metrics that measure customers outcomes. If 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 any adverse impact is promptly remedied.
Regulatory and Conduct Risk – Regulatory	
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 from both the Financial Conduct Authority (FCA) and the Central Bank of Ireland (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	
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., The Group is making investments in the development of risk management frameworks, systems and processes, including IT project management, implementation planning and cyber-risk management. In addition to this the Group also has an outsourced Internal Audit programme which reviews processes undertaken across the business to provide third party assurance and monitoring oversight. Since the outbreak of Covid-19 the Group has undergone a review and updated all processes impacted in the move to working from home.

Principal risks and mitigation (continued)

Description	Key mitigants
Operational Risk – Cyber	
Given the level of technology driven disruption being observed across the financial services sector Cyber security is a key focus for the Group. 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. With significant effort being focused on discharging the Group's cyber risk management responsibilities effectively, with ongoing investment in appropriate technology and processes. The Group has 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, with a schedule of campaigns to drive behavioural change and response to external attacks. The Group has introduced additional measures to ensure its employees and systems are kept safe from Cyber-attacks, following the changes in working practises resulting from the Covid-19 outbreak. These include increased frequency of updating and testing security controls together with implementing enhanced cyber intelligence and advanced phishing controls.
Operational Risk – People	
The risk of loss arising from manual errors, control failures or internal / external fraud as a result of high staff turnover or poorly trained colleagues.	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 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. The significant investments in the business's core systems and infrastructure over the last five years enabled the business to seamlessly transition over 99% of its workforce to home working at the of end March this year in response to the Covid-19 lockdown. The business is conscious that such a significant and precipitous change in working practises has the potential to have a detrimental impact on the wellbeing of colleagues. To ensure this risk is identified and mitigated as quickly the business is making sure all colleagues have regular interactions with their line managers, colleagues and the Human Recourses team together with receiving consistent communication across the business on wellbeing issues. Service and support for our customers, partners and our other external stakeholders continues to be uninterrupted and maintained to agreed service levels. All colleagues have access to our online training platforms, ensuring ongoing development opportunities continue, including required compliance and regulatory training.

Principal risks and mitigation (continued)

Description	**Key mitigants**
Operational Risk – External	
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 policies and approach to intermediaries and outsource partners to reflect the regulatory environment in which the Group operates and to ensure operation resilience.
Financial – Interest Rate Risk	
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 Group 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	
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 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. Covid-19 has created an element of volatility in the Group's trading cashflows. In order to mitigate the impact of this the Group has taken immediate and prudent actions within its Securitisation Programme to protect the business's liquidity position for the foreseeable future.
Financial – Foreign Exchange Risk	
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.

Principal risks and mitigation (continued)

Description	Key mitigants
Credit Risk – Customer	
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 partner 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 late payments. The Credit Policy Manual was reviewed and updated in 2019, to further strengthen current processes and procedures within the credit risk function. The credit risk policy has been further reviewed in 2020 to remain consistent with our practices and within governance in the light of the current working and business environment.
Credit Risk – Counterparty	
The Group has a large number of commercial arrangements with credit intermediaries, who are the first point of contact when borrowers miss a payment. These intermediaries may also be service providers to our borrowers, with the risk of high cancellations if services are no longer provided. In addition, in some circumstances 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. In its insurance premium finance market, 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 2019 to more proactively identify and mitigate counterparty risk. The credit risk policy has been further reviewed in 2020 to remains consistent with our practices and within governance in the light of the current working and business environment.

Principal risks and mitigation (continued)

Description	Key mitigants
Business Risk – Economic and Competition	
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 services, and any changes to our relationships with them could also have detrimental impact on the business's financial condition.	The Group has a strong record of operating successfully in its chosen markets throughout its 31-year history, which it has achieved by continually improving its service proposition. The Group maintains strong relationships with its intermediary partners, 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 relevant. The Group continues to monitor the uncertainty around the UK's withdrawal from the European Union, the impacts of Covid-19 and the further possibility of interest rate changes. By maintaining a strong financial and liquidity position we aim to be able to absorb any short-term economic downturns.

On behalf of the Board on 30 July 2020

T Waite

Tara Waite

Director

GOVERNANCE: DIRECTORS' REPORT

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
Tara Waite	Director and Chief Executive Officer *(appointed 13 June 2019)*
Anthony Santospirito	Non-Executive Director
Andrew Chapman	Director and Chief Financial Officer
Thomas Woolgrove	Director and Chief Executive Officer *(resigned 7 June 2019)*

Directors of the Group's principal trading subsidiary, Premium Credit Limited ('PCL')

Name	Title
Colin Keogh	Chairman
Tara Waite	Executive Director *(appointed on 23 September 2019)*
Thomas Woolgrove	Executive Director *(resigned on 7 June 2019)*
Andrew Chapman	Executive Director *(appointed on 3 January 2019)*
David Young	Non-Executive Director
Simon Moran	Non-Executive Director *(appointed on 5 July 2019)*
Chris Burke	Non-Executive Director *(resigned on 31 October 2019)*
John Reeve	Non-Executive Director *(resigned on 31 October 2019)*
Peter Catterall	Investment Director
Maxim Crewe	Investment Director
Anthony Santospirito	Investment Director

B2: Report of the Directors

The Directors present their report and the audited consolidated financial statements for the Group for the year ended 31 December 2019.

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.

Results and dividends

The Company paid dividends of £nil during 2019 (2018: £50.0 million). No further dividend has been proposed.

Details of the results for the year are set out in the Consolidated income statement on page 37.

Risks

The Group, through its operations, is exposed to several risks. Further information is provided in Principal risks and mitigation on page 19.

Colleagues

The Company recognises that its future success depends on the commitment and performance of its people. The leadership team are committed to creating a high-performance culture in which colleagues are accountable for their work whilst feeling engaged and empowered to deliver on their objectives. The Company is committed to providing the right working environment for people to perform to the best of their abilities.

The Company seeks to operate as a responsible employer, whose corporate values promote standards designed to help employees conduct their business relationships. It is the Company's policy to conduct business in an honest, open and ethical manner, and it has adopted a People Framework to reinforce expected behaviours across all roles within the Company. To assist in reinforcing these governing principles, the Company has policies supportive of equal opportunities and diverse working environment, with a focus on the health and safety of employees. The Company categorically condemns all instances of bribery and corruption, harassment, bullying and discrimination.

Key people initiatives from 2019 include:

- A key focus for 2019 has been to develop a People Framework which will be the centre of all people related systems, tools and processes across the Company. The People Framework has been built on three core components which will are essential factors in building a high performing culture. It consists of the Company Values, the Conduct Rules (as governed by the FCA) and a set of Leadership Competencies (in the process of being developed).
- The Company's management programme, which began in 2017, continued through 2019 and to date, over 90 managers or aspiring managers have now completed the modular programme. A restructure of the HR Team through 2019, resulted in the introduction of a centralised Learning and Development team, who are redesigning a comprehensive and inclusive set of development programs based on the newly designed People Framework. In addition to maintaining comprehensive Leadership programs, it will also focus on compliance and Premium Credit core training, competency-based training and modular training for all levels of the organisation.

The Group consults employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests. The Group provides regular updates to employees via a variety of forums to ensure there is a common awareness of all employees in relation to the financial and economic factors that affect the performance of the company.

Equality and diversity

The Company is committed to promoting equality and policies and processes follow best practice on equal opportunities for all employees. Decisions about recruitment, selection, training, promotion or any other aspect relating to a person's employment with the Company are made regardless of gender, sexual orientation, disability, marital status, age, race, religious or political beliefs.

Composition of the workforce

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 gender, sexual orientation, disability, marital status, age race, religious or political beliefs. 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.

The Company has over 400 employees working in the UK and Ireland. The below table shows the gender diversity at the end of the year:

	2019		2018	
	Men	**Women**	Men	Women
The Board	90%	10%	100%	-
Senior Management	79%	21%	84%	16%
Other Employees	53%	47%	53%	47%
Total	56%	44%	54%	46%

In early 2020, the Group published its gender pay gap report. The table below shows the overall mean and median gender pay gap based on hourly rates of pay at the snapshot date (5 April 2019). It also captures the mean and median difference between bonuses paid to men and women in the year up to 5 April 2019, i.e. for the 2018 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)	41.5%	41.9%
Bonus amount	66.3%	51.5%

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 the business. The bonus gap is also affected by lower representation of women in sales roles. The Company has processes and practices to ensure people are not 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. The mean gender pay gap of hourly rate has reduced by 3.42%, the median gender pay gap of hourly rate has reduced by 2.6%, the mean bonus pay gap has increased by 1.3% and the median bonus pay gap has reduced by 7.5%.

Although the results of the Premium Credit gender pay gap results have improved from last year, we recognise that significant improvements are required as we continue to reduce the gap and seek to enhance the experience of all our employees in respect of equality, diversity and inclusion.

Diversity metrics are included in quarterly MI provided to the Executive committee each month, highlighting the importance of monitoring and measuring PCL's workforce composition.

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 2019.

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 is regularly reviewed and updated as required. The Chief People Officer Chairs the Committee, ensuring the proactive approach to Safety and Wellbeing in the workplace. There were no significant incidents in the workplace during 2019.

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

The Group has an established whistleblowing framework which enables employees to raise issues when they feel it is appropriate, and which ensures that no employee making such disclosure will suffer any consequent disadvantage. There were no whistleblowing incidents during the year 2019.

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 12 to the financial statements.

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.

Donations

During the year the Company donated £11,269 (2018: £12,000) to charitable causes.

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:

- 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;
- 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 October 2019, the existing Variable Funding Notes ('VFN') facility was increased by £307.0 million to £826.0 million and the final legal maturity date of the Securitisation Notes was extended to 21 June 2023. The additional increase allows for any uncertainty around the next maturing VFN in June 2020 of £282.0 million. The existing structure and changes ensure that the business maintains a diversified and stable funding structure which reduces its liquidity risk.

The Group's principal risk stems from the credit quality of loans and advances and the directors review the risks the Group may face on an ongoing basis. The Directors have assessed the Group's cash flow forecasts together with forecast compliance with the Group's banking facility covenants for a period of twelve months from the date of approval of these financial statements and the Group's net liability position 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

On 24 December 2019 Mizzen Bondco Limited entered into a £190.0 million Senior Term Loan facility due 2025 with a large private investment manager. The Senior Term Loan was drawn on 16 January 2020, with its net proceeds applied towards the redemption of Mizzen Bondco Limited's existing borrowings.

During the first half of 2020 the outbreak of the Covid-19 pandemic caused material disruption to the UK economy, including the markets serviced by the Company. As of the balance sheet date it was not known how severe the economic impact of Covid-19 would be as most of the cases were then in Asia, where the Company does not operate. In accordance with IAS 10 *Events after the reporting period*, the directors therefore consider this outbreak to be a non-adjusting post balance sheet event as at 31 December 2019.

The impact of the pandemic on the Company in the first half of 2020 has been primarily as a result of forbearance requests from customers. The directors have worked closely with the Company's regulators, partners and industry bodies to manage this process in a proactive manner and will continue to do so. The Company is well-positioned with strong capital, funding and liquidity resources, and it aims to ensure that this remains the case. The directors acknowledge the likelihood of a financial impact to the Company over the next financial year; however, this will require assessment once the long-term economic impact of Covid-19 is clearer.

There were no other post balance sheet events.

Future outlook

Information on the Group's future developments can be found in the Strategic report.

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 year. 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.

Statement of disclosure of information to auditors

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 30 July 2020 and signed on its behalf by:

On behalf of the Board
Tara Waite, Director

C: FINANCIAL STATEMENTS

C1: 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 company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 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 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 2019; 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, Risk and Compliance Committee of Premium Credit Limited.

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 company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall group materiality: £1,607,250 (2018: £1,509,000), based on 2.5% of earnings before interest, tax, depreciation and amortisation.
- Overall company materiality: £601,000 (2018: £593,000), 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 £1,607,250. 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.
- Consideration on the impact of COVID-19

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, 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 group 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 53, 54 and 55 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 of the financial statements for the directors' disclosures of the related accounting policies and associated financial statement note. (Group)	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 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. (Group)	We assessed whether the measurement of the loan notes was in accordance with IFRS 9 — Financial Instruments. We undertook the following procedures to test the measurement of the loan notes: 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 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.
Consideration on the impact of COVID-19 The directors have assessed the impact of COVID-19 on the Group and Company financial statements, and have concluded that COVID-19 represents a non-adjusting post balance sheet event in accordance with IAS 10 – 'Events After the Reporting Period'. COVID-19 has created significant economic uncertainty and this increases this risk over the directors' use of the going concern basis of preparation. The directors' assessment of the Group's and Company's going concern status is supported by estimates over future trading performance and associated cash flows, with COVID-19 resulting in greater uncertainty in estimating future revenues, profits and cash flows. Refer to Note 2 (b) and 32 of the financial statements for the directors' disclosures of the related accounting policy and associated financial statement note. (Group and Company)	We considered the directors' assessment that the impact of COVID-19 is not an adjusting post balance sheet event by reference to the wider understanding of the impact of COVID-19 on the UK economy as at 31 December 2019, and based on our evaluation we found the directors' assessment to be reasonable. We performed the following procedures: - tested the mathematical accuracy of the cash flow forecast model and other supporting documents; - assessed the reasonableness of key assumptions supporting the cash flow forecasts including revenue and cost projections, and mitigating cost actions identified by the directors - evaluated forecast revenues by reference to current and historical performance, sensitised to reflect different downside scenarios as a consequence of the potential future impact of COVID-19 on the Group's operations; - assessed the impact of financial obligations arising from existing contractual relationships to ensure that these were appropriately reflected in the cash flow forecasts; - read and evaluated the Group's existing facility agreements to ensure that there were no conditions present that would result in the facilities being withdrawn within a 12 month period of the approval of the financial statements; - evaluated the group's forecast performance against contractual financial trigger events, that if breached, would prevent the group from securitising any new assets within their lending facility; and

- evaluated the group's forecast financial covenant compliance based on the above mentioned cash flow forecasts.

Based on the procedures performed we found that the directors' use of the going concern basis in the preparation of the financial statements is reasonable.

We read the disclosures made in the financial statements in respect of the impact of COVID-19 on the financial statements and found these to be appropriate.

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 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	***Company financial statements***
Overall materiality	£1,607,250 (2018: £1,509,000).	£601,000 (2018: £593,000).
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 an investment 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, Risk and Compliance Committee of Premium Credit Limited that we would report to them misstatements identified during our audit above £80,363 (Group audit) (2018: £75,450) and £30,070 (Company audit) (2018: £29,650) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and 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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and 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 30, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the 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 8 years, covering the years ended 31 December 2012 to 31 December 2019.

Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 July 2020

C2: Consolidated income statement

For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Interest income		**114,441**	112,891
Interest expense		**(20,366)**	(18,968)
Net interest income	5	**94,075**	93,923
Fee income	6	**17,764**	14,973
Commission expense	7	**(3,723)**	(4,067)
Total income		**108,116**	104,829
Administrative expenses	8	**(76,931)**	(69,648)
Net Impairment losses on Loans to customers	15	**1,103**	(1,899)
Operating profit		**32,288**	33,282
Finance income		**9**	8
Finance expense	10	**(14,975)**	(14,654)
Profit before taxation		**17,322**	18,636
Income tax expense	11	**(986)**	(1,732)
Profit for the financial year		**16,336**	16,904

The notes on pages 43 to 81 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 2019

	Note	2019 £'000	2018 £'000
Profit for the financial year		**16,336**	16,904
Other comprehensive (loss)/income			
Items that may subsequently be reclassified to the profit or loss:			
Foreign currency translation gains (losses)/gains	22	**(1,703)**	379
Other comprehensive (loss)/income for the year		**(1,703)**	379
Total comprehensive income for the year		**14,633**	17,283

C4: Consolidated balance sheet

As at 31 December 2019

	Note	31 Dec 2019 £'000	31 Dec 2018 £'000
Assets			
Non-current assets			
Intangible assets	12	**10,967**	12,649
Property, plant and equipment	13	**2,892**	3,766
Right-of-use assets	14	**5,932**	-
Loans to customers	15	**3,580**	3,129
Prepayments and other receivables	16	**1,294**	1,686
Deferred tax asset	17	**483**	424
Total non-current assets		**25,148**	21,654
Current assets			
Loans to customers	15	**1,441,869**	1,397,547
Prepayments and other receivables	16	**11,565**	10,988
Corporation tax receivable		**1,141**	1,437
Cash and cash equivalents	18	**85,281**	66,149
Total current assets		**1,539,856**	1,476,121
Total assets		**1,565,004**	1,497,775
Liabilities			
Non-current liabilities			
Lease obligations	14	**5,169**	-
Borrowings	19	**1,173,531**	1,159,874
Total non-current liabilities		**1,178,700**	1,159,874
Current liabilities			
Lease obligations	14	**890**	-
Trade and other payables	20	**462,944**	430,064
Total current liabilities		**463,834**	430,064
Total liabilities		**1,642,534**	1,589,938
Equity			
Called up share capital	21	**44,502**	44,502
Accumulated losses		**(122,843)**	(139,179)
Other reserves	22	**811**	2,514
Total equity		**(77,530)**	(92,163)
Total liabilities and equity		**1,565,004**	1,497,775

The financial statements on pages 37 to 81 were approved by the Board on 30 July 2020 and signed on its behalf by:

Tara Waite,
Director

C5: Company balance sheet

As at 31 December 2019

	Note	31 Dec 2019 £'000	31 Dec 2018 £'000
Assets			
Non-current assets			
Investments	23	**44,502**	**44,502**
Prepayments and other receivables	16	**15,611**	**14,741**
Total non-current assets		**60,113**	**59,243**
Current assets			
Prepayments and other receivables	16	**28**	**44**
Total current assets		**28**	**44**
Total assets		**60,141**	**59,287**
Liabilities			
Current liabilities			
Trade and other payables	20	**753**	**575**
Total current liabilities		**753**	**575**
Total liabilities		**753**	**575**
Equity			
Called up share capital	21	**44,502**	**44,502**
Retained earnings		**14,886**	**14,210**
Total equity		**59,388**	**58,712**
Total liabilities and equity		**60,141**	**59,287**

The Company made a profit of £0.7 million in the financial year (2018: £50.7 million).

Approved by the Board on 30 July 2020 and signed on its behalf by:

T Waite

Tara Waite,
Director

C6: Consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Called Up Share Capital £'000	Accumulated (Losses) /Income £'000	Other Reserves £'000	Total Equity £'000
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 and 1 January 2019		**44,502**	**(139,179)**	**2,514**	**(92,163)**
Profit for the financial year		-	16,336	-	16,336
Foreign currency translation loss	22	-	-	(1,703)	(1,703)
Total comprehensive income for the year		-	16,336	(1,703)	14,633
Transactions with owners:					
Dividends paid	24	-	-	-	-
At 31 December 2019		**44,502**	**(122,843)**	**811**	**(77,530)**

C7: Company statement of changes in equity

For the year ended 31 December 2019

	Note	Called Up Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 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 and 1 January 2019		**44,502**	**14,210**	**58,712**
Profit for the financial year		-	676	676
Dividends paid	24	-	-	-
At 31 December 2019		**44,502**	**14,886**	**59,388**

C8: Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash generated from operations	25	**46,736**	81,404
Interest paid		**(30,525)**	(29,128)
Income tax paid		**(477)**	(1,564)
Net cash flows generated from operating activities		**15,734**	50,712
Cash flows used from investing activities			
Purchase of intangible fixed assets	12	**(4,151)**	(6,911)
Purchase of property, plant and equipment	13	**(216)**	(513)
Net cash used in investing activities		**(4,367)**	(7,424)
Cash flows from financing activities			
Increase in/(repayments of) borrowings		**10,043**	(27,366)
Principal elements of lease payments		**(881)**	-
Facility fees paid		**(935)**	(2,135)
Dividends paid to shareholders	24	**-**	(50,000)
Net cash flows generated from/(used in) financing activities		**8,227**	(79,501)
Net increase/(decrease) in cash and cash equivalents		**19,594**	(36,213)
Cash and cash equivalents at beginning of year		**66,149**	102,097
Foreign currency translation (losses)/gains		**(462)**	265
Cash and cash equivalents at end of year	18	**85,281**	66,149

The notes on pages 42 to 80 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 in England & Wales and domiciled in the United Kingdom. The address of the registered office is: Ermyn House, Ermyn Way, Leatherhead, England, KT22 8UX.

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 the Group.

2. Accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2018 Annual Report and Financial Statements with the exception of new accounting policies, IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*, which were both adopted on 1 January 2019.

IFRS 16 replaces IAS 17 *Leases* and requires the Group to recognise right-of-use assets and related lease liabilities in connection with operating leases. The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current year. Further detail of the new accounting policy applied and the impact of transition to IFRS 16 can be found in Notes 14 and 35.

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 has not had a material impact on the financial statements of the Group.

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 modified to include the fair valuation of particular financial instruments, to the extent required or permitted under IFRS as set out in the relevant accounting policies.

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 modified to include the fair valuation of particular financial instruments, to the extent required or permitted as set out in the relevant accounting policies 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 public asset-backed term notes alongside variable funding asset-backed notes (the 'VFN Facility') issued to a syndicate of banks. 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.

In October 2019, the business agreed the extension of the VFN Facility's reinvestment period to October 2022 and increased its size from £519.0 million to £826.0 million, divided into two tranches, £804.0 million Class A rated by DBRS, and £22.0 million Class B. No debt is due within 12 months of the approval of the accounts due to these actions.

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

The Group's principal risk stems from the credit quality of loans and advances and the directors review the risks the Group may face on an ongoing basis. Following the Covid-19 outbreak the directors have reviewed forecast cashflows together with forecast compliance with the Group's banking facility covenants for a period of twelve months from the date of approval of these financial statements and have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has sufficient resources to continue in business for the foreseeable future. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

Accordingly, the Directors have assessed the Group's cash flow forecasts together with forecast compliance with the Group's banking facility covenants and a net liability position, 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 2019, there were £986.1 million notes in issue relating to securitisation transactions (2018: £973.8 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 in the countries where the Group and its subsidiaries operate and generate taxable income.

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.

The Group's foreign operations may have different functional currencies. Prior to consolidation the assets and liabilities of non-Sterling operations are translated at the period end exchange rate and items of income, expense and other comprehensive income are translated into Sterling at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in the foreign currency translation reserve within equity.

(h) Cash and cash equivalents

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

(i) Financial instruments

IFRS 9 *Financial Instruments* has three core areas: Classification and Measurement; Hedge Accounting; and Impairment.

Financial assets

Financial assets comprise cash and bank balances, loans 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.

(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 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 ECL 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 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 one 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 (ECL)

Nearly all the advances the Group writes have a term of less than 12 months. At 31 December 2019, 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.

(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 year 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:

Equipment	3 to 10 years
Leasehold improvements	10 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 in the prior year 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.

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 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 year they are approved by the Group’s Board.

(t) Segmental reporting

The company operates in one class of business, namely the financing of insurance premiums and instalment services, and in one geographical area, Europe. Accordingly, a segmental analysis of the company's business is not provided.

(u) Future accounting pronouncements

A new accounting standard and amendment to accounting standards have been issued by the IASB, which is not yet effective and have not been early adopted by the Group. It is set out below:

- *Definition of Material – Amendments to IAS 1 and IAS 8* (effective for annual years beginning on or after 1 January 2020)

The IASB has made amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of ‘primary users of general-purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other

creditors' that must rely on general purpose financial statements for much of the financial information they need.

The Group does not expect there to be any material impact on its financial statements due to this revised standard.

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 estimates 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.

Critical Accounting Estimates

(a) Expected credit losses on financial assets

The measurement of Expected Credit Losses ('ECL') under IFRS 9 requires a number of significant estimates. ECL calculations are outputs of complex models with a number of underlying estimates regarding the choice of variable inputs and their interdependencies. Specifically, estimation uncertainties relate to the assessment of whether credit risk on the financial asset has increased significantly since initial recognition, incorporation of forward-looking information in the measurement of ECL and key estimates for the 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 ECL and the associated areas estimated 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 to customers future cash flows and the expected average life of customer debt balances are estimated. 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) 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 estimates, 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 estimates have been made in respect of highly uncertain matters, including management's expectations of growth and discount rates. Changing the estimates 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.

(d) 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.

(e) 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.

Critical Accounting Judgements

(f) Development costs

The Group has capitalised internally generated intangible assets as required in accordance with IAS 38. Management has applied judgement in determining 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 judgements.

(g) Going concern

In order to assess whether it is appropriate for the Group and Company financial statements to be prepared using the going concern basis of preparation, the directors have applied judgement, having undertaken appropriate enquiries and having considered the business activities and the Group and Company's principal risks and uncertainties.

In particular, the directors have assessed the potential impact of the outbreak of the novel coronavirus in 2019 on the entities participant to the Securitisation Programme within the Group and believe any anticipated impact on the Group or Company will not prevent the Company or Group from continuing as a going concern for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements.

The directors note that the securitisation SPVs have been structured to be insolvency remote from the Company and Group, and neither the Company or Group nor any associated body thereof owns directly or indirectly any shares of the SPV entities. As such, the parties to the Securitisation Programme (the SPVs, the Trustees and Premium Credit) have agreed that its recourse should be limited to its available assets. Therefore, the extent that Covid-19 has an impact on the receivables allocated to its trust interest (which results in a shortfall in the SPV's available funds) will ultimately result in losses for the noteholders and not the Company or Group.

Having taken into account the above, together with the cashflow forecasts and forecast covenant compliance of the Company and Group, and, the directors are satisfied that at the date of approval of the financial statements the Company and Group will have sufficient resources available to it to continue as a going concern for a period of at least 12 months.

4. Segmental reporting

The group operates in one class of business, namely the financing of insurance premiums and instalment services, and in one geographical area, Europe. Accordingly, a segmental analysis of the group's business is not provided.

5. Net interest income

	2019 £'000	2018 £'000
Interest receivable on:		
Interest income on loans to customers -		
Earned service fee income	118,285	114,934
Cost of sales: incentives	(3,844)	(2,043)
Interest income	**114,441**	112,891
Interest payable on:		
Securitisation notes	**(20,366)**	(18,968)
Interest expense	**(20,366)**	(18,968)
Net interest income	**94,075**	93,923

Interest payable on amounts owed to related party is LIBOR linked interest payable to PCL Asset Trustee Limited, the special purpose securitisation vehicle.

6. Fee income

	2019 £'000	2018 £'000
Servicing and administration fees	**17,764**	14,973
Fee income	**17,764**	14,973

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

7. Commission expense

	2019 £'000	2018 £'000
Commission expense	**3,723**	**4,067**
Commission expense	**3,723**	**4,067**

Commission expense primarily relates to costs payable to our partners.

8. Administrative expenses

	Notes	2019 £'000	2018 £'000
Staff costs:			
Wages and salaries		**23,799**	21,951
Social security costs		**3,358**	3,342
Other pension costs		**1,473**	1,301
Total staff costs		**28,630**	26,594
Non-staff costs:			
Other administration costs		**22,914**	15,415
IT related expenditure		**7,878**	9,005
Depreciation and amortisation	12, 13, 14	**7,934**	6,472
Amounts written off on loans to customers		**5,898**	7,415
Operating lease costs		**172**	970
Non-recurring costs[1]		**659**	2,802
Loss on disposal of fixed assets		**-**	665
Loss from foreign exchange		**2,846**	310
Total non-staff costs		**48,301**	43,054
Administrative expenses		**76,931**	69,648

[1] Non-recurring expenditure associated with responding to the cyber incident in September 2018. The Company has made a claim against its cyber insurance policy. The expected recovery from it cannot be reliably measured at the date of approval of the financial statements and therefore has not been recognised.

Operating profit is stated after charging:

	2019 £'000	2018 £'000
Operating lease rentals	**102**	970
Depreciation charge on tangible fixed assets and right-of-use assets	**2,099**	1,192
Amortisation charge on intangible fixed assets	**5,835**	5,280
Impairment of loans to customers	**4,795**	9,314
IT related expenditure	**7,878**	9,005
Loss on disposal of assets	**-**	665

Impairments of loans to customers

	2019 £'000	2018 £'000
Movement in expected credit losses/impairment allowance	**(1,103)**	1,899
Amounts written off during the year as uncollectible, net of recoveries	**5,898**	7,415
Impairment of loans to customers	**4,795**	9,314

Total auditors' remuneration

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

Auditors' remuneration	2019 £'000	2018 £'000
Audit services	**309**	283
Audit related services	**77**	75
Other assurance services	**196**	-
Total auditors' remuneration	**582**	358

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:

	2019 Number	2018 Number
Operations	**169**	162
General and administration	**160**	165
Sales and marketing	**88**	83
Total number of employees	**417**	410

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:

	2019 £'000	2018 £'000
Aggregate emoluments	**2,407**	2,227
Total emoluments	**2,407**	2,227

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 £0.7 million (2018: £0.9 million) which includes payment in lieu of notice £0.5 million (2018: £0.7 million). No contributions were made in respect of money purchase schemes to the highest paid Director (2018: £nil).

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

10. Finance expense

	2019	2018
	£'000	£'000
Interest payable on:		
Lease obligations	**321**	-
Senior loan notes	**14,654**	14,654
Finance expense	**14,975**	14,654

11. Income tax expense

	2019	2018
	£'000	£'000
Current tax expense - current year	**1,086**	1,428
Adjustment to prior years – current tax	**(363)**	(126)
Total current tax	**723**	1,302
Deferred tax credit - current year	**(130)**	(111)
Adjustment to prior years – deferred tax	**71**	(51)
Total deferred tax	**(59)**	(162)
Foreign tax	**322**	592
Total foreign tax	**322**	592
Total tax expense	**986**	1,732

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under FRS 101. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of any temporary differences will occur at this rate and that the maximum impact on the quantum of the net deferred tax asset recognised will be £57k.

Factors affecting the total tax charge / (credit) for the year are explained below:

	2019 £'000	2018 £'000
Profit before taxation on ordinary activities	**17,322**	18,636
Profit before taxation on ordinary activities multiplied by the UK tax rate of 19% (2018: 19.00%)	**3,291**	3,541
Factors affecting expense for the year:		
Tax exempt income	**(8)**	(42)
Expenses not deductible for tax purposes	**196**	277
Overseas tax	**322**	592
Double tax relief	**(322)**	(592)
Adjustment to prior years – current tax	**(363)**	(126)
Adjustment to prior years – deferred tax	**71**	(51)
Effects of group relief for nil consideration	**(2,219)**	(1,883)
Effects of rate change	**19**	17
Other tax adjustments	**(1)**	(1)
Total tax expense	**986**	1,732

12. Intangible assets

	Assets under construction £'000	Software £'000	Total £'000
Cost			
At 1 January 2018	1,481	17,058	**18,539**
Additions	6,056	855	**6,911**
Transfers	(816)	816	**-**
Disposals	(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**
Disposals	-	(377)	**(377)**
At 31 December 2018	-	11,781	**11,781**
Net book value at 31 December 2018	**6,086**	**6,563**	**12,649**

	Assets under construction £'000	Software £'000	Total £'000
Cost			
At 1 January 2019	**6,086**	**18,344**	**24,430**
Additions	3,653	500	**4,153**
Transfers	(7,172)	7,172	**-**
At 31 December 2019	**2,567**	**26,016**	**28,583**
Accumulated amortisation			
At 1 January 2019	**-**	**11,781**	**11,781**
Charge for the year	-	5,835	**5,835**
At 31 December 2019	**-**	**17,616**	**17,616**
Net book value at 31 December 2019	**2,567**	**8,400**	**10,967**

Management has assessed the expected contribution to be generated from the software assets and deemed an impairment adjustment of £nil (2018: £nil) is required to the carrying value of the assets.

13. Property, plant and equipment

	Leasehold improvements £'000	Equipment £'000	Total £'000
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**

	Leasehold improvements £'000	Equipment £'000	Total £'000
Cost			
At 1 January 2019	**2,872**	**5,327**	**8,199**
Additions	-	216	**216**
At 31 December 2019	**2,872**	**5,543**	**8,415**
Accumulated depreciation			
At 1 January 2019	**566**	**3,867**	**4,433**
Charge for the year	287	803	1,090
At 31 December 2019	**853**	**4,670**	**5,523**
Net carrying value at 31 December 2019	**2,019**	**873**	**2,892**

See note 21 for contractual commitments on capital expenditure.

14. Leases

a) Amounts recognised in the Balance Sheet

The Balance Sheet shows the following amounts relating to leases:

	31 Dec 2019 £'000	1 Jan 2019 £'000
Buildings	**5,612**	**6,433**
Vehicles	**320**	**258**
Right-of-use assets	**5,932**	**6,691**

Buildings	**5,764**	6,433
Vehicles	**295**	258
Lease obligations	**6,059**	6,691

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 *Leases*. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 *Leases* on 1 January 2019, please refer to note 33.

Additions to the right-of-use assets during the 2019 financial year were £0.3 million.

b) Amounts recognised in the Income Statement

The Income Statement shows the following amounts relating to leases:

	31 Dec 2019 £'000	1 Jan 2019 £'000
Buildings	**821**	-
Vehicles	**188**	-
Depreciation charge of right-of-use assets	**1,009**	**-**
Interest expense	**320**	-

The total cash outflow for leases in 2019 was £1.2 million.

c) The Group's leasing activities and how these are accounted for

The Group leases buildings and vehicles. Rental contracts are typically made for fixed periods of 6 months to 8 years. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of property for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the end of the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases, see note 33 for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, for example term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

d) Residual value guarantees

To optimise lease costs during the contract period, the group sometimes provides residual value guarantees in relation to vehicle leases.

15. Loans to customers

	31 Dec 2019 £'000	31 Dec 2018 £'000
Gross loans to customers	**1,450,769**	1,407,099
Less: allowance for ECL/impairment losses	**(5,320)**	(6,423)
Net loans and advances to customers	**1,445,449**	1,400,676
Split as:		
Current	**1,441,869**	1,397,547
Non-current	**3,580**	3,129

At 31 December 2019, £1.049.5 million (2018: £1,033.9 million) of the loans 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 *Financial Instruments* is as follows:

	2019 £'000	2018 £'000
1 January	**6,423**	4,524
(Credit)/Charge for impairment losses	**(1,103)**	1,899
At 31 December	**5,320**	6,423

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

At 31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers (£'000)	**1,437,102**	**9,104**	**4,563**	**1,450,769**
Allowance for ECL (£'000)	**3,095**	**633**	**1,592**	**5,320**
Coverage ratio (%)	**0.2%**	**7.0%**	**34.9%**	**0.4%**

At 1 January 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers (£'000)	1,396,336	5,647	5,116	1,407,099
Allowance for ECL (£'000)	4,057	482	1,884	6,423
Coverage ratio (%)	0.3%	8.5%	36.8%	0.5%

16. Prepayments and other receivables

	Group 31 Dec 2019 £'000	Group 31 Dec 2018 £'000	**Company 31 Dec 2019 £'000**	Company 31 Dec 2018 £'000
Prepayments	**12,260**	12,283	**28**	44
Amounts owed by Group undertakings	**599**	391	**15,611**	14,741
Prepayment and other receivables	**12,859**	12,674	**15,639**	14,785
Split as:				
Current	**11,565**	10,988	**28**	44
Non-current	**1,294**	1,686	**15,611**	14,741

Prepayments and other receivables of £12.9 million (2018: £12.7 million) include £1.4 million (2018: £2.6 million) of fees relating to the Master Trust which are amortised over five years and £0.9 million (2018: £0.5 million) of fees relating to undrawn facilities.

The Group has amounts owed by Group undertakings of £0.6 million (2018: £0.4 million) which is attributable to expenses recharged to Pomegranate Acquisitions Limited, Pomegranate Holdings Limited and Pomegranate Topco Limited which are unsecured and repayable on demand.

Company prepayments and other receivables of £15.6 million (2018: £14.7 million) consist of amounts owed by Group undertakings. The Company has a loan receivable from its subsidiary Mizzen Midco Limited of £15.6 million (2018: £14.7 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 2019 £'000	Liabilities 2019 £'000	Net 2019 £'000
Deferred tax asset as at 1 January	**985**	**(561)**	**424**
Deferred tax credit/(charge) for the year attributable to:			
Deferred tax credit in respect of current year	149	-	149
Adjustments in respect of prior year	(71)	-	(71)
Effect of rate change	-	(19)	(19)
Deferred tax asset as at 31 December	**1,063**	**(580)**	**483**

	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**

The deferred tax asset in the balance sheet is as follows:

	31 Dec 2019 £'000	31 Dec 2018 £'000
Deferred tax assets due within 12 months	**14**	31
Deferred tax liabilities due within 12 months	**(199)**	(214)
Carrying amount at year end	**(185)**	**(183)**
Deferred tax assets due in more than 12 months	**699**	653
Deferred tax liabilities due in more than 12 months	**(31)**	(46)
Carrying amount at year end	**668**	**607**
Deferred tax asset as at 31 December	**483**	424

The deferred tax asset in the balance sheet consists of:

	31 Dec 2019	31 Dec 2018
	£'000	£'000
Accelerated capital allowances	**373**	332
s1308 R&D intangible fixed asset	**110**	92
Deferred tax asset as at 31 December	**483**	424

At the end of the year the Group had tax losses available to carry forward for offset against future profits of £1.9 million (2018: £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 2019	31 Dec 2018
	£'000	£'000
Bank balances	**85,281**	66,149
Cash and cash equivalents	**85,281**	66,149

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

	31 Dec 2019	31 Dec 2018
	£'000	£'000
GBP	**78,285**	55,925
USD	**1,255**	2,248
EUR	**5,741**	7,976
Cash and cash equivalents	**85,281**	66,149

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

The external credit ratings of the Group's banking counterparties are:

	31 Dec 2019	31 Dec 2018
	£'000	£'000
AA-	**85,281**	66,149
Cash and cash equivalents	**85,281**	66,149

19. Borrowings

	31 Dec 2019 £'000	31 Dec 2018 £'000
Non-current		
Securitisation notes	**986,108**	973,847
Senior secured loan notes	**187,423**	186,027
Borrowings	**1,173,531**	1,159,874

Securitisation notes

Funding is provided by a £1,391.5 million (2018: £1,084.5 million) securitisation facility, which includes a VFN Facility extended in 2019 and two public term notes launched in 2017. As at 31 December 2019, £988.2 million was drawn down on the securitisation programme (2018: £977.9 million) less loan fees of £2.1 million (2018: £4.1 million).

Senior secured loan notes	**Issue date**	**Maturity date**	**31 Dec 2019 £'000**	31 Dec 2018 £'000
Fixed rate corporate bond	8 May 2014	1 May 2021	**187,423**	186,027

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 (2018: £189.4 million) less loans fees of £2.0 million (2018: £3.4 million). On 24 December 2019 Mizzen Bondco Limited entered into a £190.0 million Senior Term Loan facility due 2025 with a large private investment manager. The Senior Term Loan was drawn on 16 January 2020, with its net proceeds applied towards the redemption of Mizzen Bondco Limited's existing borrowings.

20. Trade and other payables

	Group 31 Dec 2019 £'000	Group 31 Dec 2018 £'000	**Company 31 Dec 2019 £'000**	Company 31 Dec 2018 £'000
Trade payables	**438,658**	412,831	**-**	-
Accrued expenses	**21,781**	14,649	**41**	86
Social security and other taxes	**1,000**	1,149	**-**	-
Amounts owed to Group undertakings	**989**	991	**712**	489
Other creditors	**516**	444	**-**	-
Trade and other payables	**462,944**	430,064	**753**	575

Split as:				
Current	**462,944**	430,064	**753**	575
Non-current	**-**	-	**-**	-

The Group has amounts owed to Pomegranate Acquisitions Limited of £1.0 million (2018: £1.0 million) attributable to recharged expenses. The Company also has amounts owed to Premium Credit Limited of £0.7 million (2018: £0.5 million) attributable to recharged expenses. These balances are unsecured and are repayable on demand.

21. Called up share capital

	Group 31 Dec 2019 £'000	Group 31 Dec 2018 £'000	**Company 31 Dec 2019 £'000**	Company 31 Dec 2018 £'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 2019 £'000	31 Dec 2018 £'000
Opening foreign currency translation reserve	**2,514**	2,135
Foreign currency translation	**(1,703)**	379
Other reserves	**811**	2,514

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

23. Investments

Investments – Company	31 Dec 2019 £'000	31 Dec 2018 £'000
Cost and carrying value		
At 1 January	**44,502**	44,502
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	2019 £'000	2018 £'000
Dividend paid £nil per £1 share: (2018: £1.5188 per £1 share)	-	50,000
Dividends paid	**-**	50,000

No dividend has been proposed.

25. Cash generated from operations

	2019 **£'000**	2018 £'000
Profit before taxation	**17,322**	18,636
Non-cash items included in profit before taxation		
Loan impairment charges	**4,795**	9,314
Depreciation and amortisation	**7,934**	6,472
Loss on disposal of fixed assets	**-**	665
Finance costs – net	**35,332**	33,614
Non-cash items included in profit before taxation	**48,061**	50,065
Changes in operating assets and liabilities		
Net movement in loans to customers	**(50,807)**	10,691
Net movement in trade and other payables	**31,508**	3,251
Net movement in prepayments and other receivables	**652**	(1,239)
Changes in operating assets and liabilities	**(18,647)**	12,703
Cash generated from operations	**46,736**	81,404

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 2019, 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 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 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 to customers represent 92.4% of total assets at 31 December 2019 (2018: 93.5%).

The credit quality of loans to customers is measured on the Staging allocation that the Group performs on its loan book. The Group staging assessment of its loans 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 £9.9 million (2018: £9.8 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 year the Group held deposits at call of £85.3 million (2018: £66.1 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 2019** **£'000**	31 Dec 2018 £'000
Encumbered cash and cash equivalents	**30,743**	36,683
Unencumbered cash and cash equivalents	**54,538**	29,466
Cash and cash equivalents	**85,281**	66,149

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 year:

Variable rate	31 Dec 2019 £'000	31 Dec 2018 £'000
Expiring after more than one year (securitisation)	**410,298**	106,551
Undrawn borrowing facilities	**410,298**	106,551

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 2019	Repayable on demand £'000	<1 year £'000	1-2 years £'000	2-5 years £'000	< 5 years £'000	Total £'000
Financial liabilities						
Lease obligations	-	947	861	3,892	533	**6,233**
Borrowings	-	-	-	1,240,865	-	**1,240,865**
Trade and other payables	989	439,174	-	-	-	**440,163**
Total financial liabilities	**989**	**440,121**	**861**	**1,244,757**	**533**	**1,687,261**
Financial assets						
Loans to customers	-	1,441,869	3,580	-	-	**1,445,449**
Other receivables	599	-	-	-	-	**599**
Cash and cash equivalents	54,538	30,743	-	-	-	**85,281**
Total financial assets	**55,137**	**1,472,612**	**3,580**	**-**	**-**	**1,531,329**
Maturity gap	**54,148**	**1,032,491**	**2,719**	**(1,244,757)**	**(533)**	**(155,932)**

At 31 December 2018	Repayable on demand £'000	<1 year £'000	1-2 years £'000	2-5 years £'000	< 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)**

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 2019, a 2.0% movement in the US dollar/GBP and EUR/GBP exchange rates would have had a of £0.5 million (2018: £0.5 million) impact on profits.

28. Financial instruments

(a) Classification of financial instruments under IFRS9

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

At 31 December 2018	**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 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 2019	**FVTPL £'000**	**Amortised cost £'000**	**Total £'000**
Liabilities			
Borrowings	-	1,173,531	**1,173,531**
Trade and other payables	-	461,944	**461,944**
Total financial liabilities	**-**	**1,635,475**	**1,635,475**
Assets			
Loans to customers	-	1,445,449	**1,445,449**
Other receivables	-	599	**599**
Cash and cash equivalents	**-**	85,281	**85,281**
Total financial assets	-	**1,531,329**	**1,531,329**

(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 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities				
Borrowings	**183,294**	**986,108**	**-**	**1,169,402**
Trade and other payables	**-**	**463,932**	**-**	**463,932**
Total financial liabilities	**183,294**	**1,450,040**	**-**	**1,633,334**
Assets				
Loans to customers	**-**	**1,445,449**	**-**	**1,445,449**
Other receivables	**-**	**599**	**-**	**599**
Total financial assets	**-**	**1,446,048**	**-**	**1,446,048**

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 to customers	**-**	**1,400,676**	**-**	**1,400,676**
Other receivables	**-**	**391**	**-**	**391**
Total financial assets	**-**	**1,401,067**	**-**	**1,401,067**

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 to customers 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 2019 and 31 December 2018 were as follows:

	Note	**31 Dec 2019 £'000**	31 Dec 2018 £'000
Debt			
Securitisation notes	19	**986,108**	973,847
Senior loan notes	19	**187,423**	186,027
Amounts owed to Group undertakings	20	**989**	991
Less: unencumbered cash	27	**(54,538)**	(29,466)
Net debt		**1,119,982**	1,131,399
Equity			
Total equity		**(77,530)**	(92,163)

On 24 December 2019 Mizzen Bondco Limited entered into a £190.0 million Senior Term Loan facility due 2025 with a large private investment manager. The Senior Term Loan was drawn on 16 January 2020, with its net proceeds applied towards the redemption of Mizzen Bondco Limited's existing borrowings.

The Group uses a number of non-GAAP debt ratios which can be seen on page 83.

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.

The Group also paid finance commission to Ingenie Services Limited of £1.2 million (2018: £nil million) at the end of the year £0.6 million (2018: £nil million) was outstanding. Ingenie Services Limited is related through key management personnel.

On the 4th July 2019, the Group granted a loan to a director of £40,000, with interest payable at 2.5% per annum, for the purpose of acquiring shares in Pomegranate Topco Limited.

(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.

	2019 **£'000**	**2018** **£'000**
Short-term employee benefits	**4,671**	3,147
Termination benefits	**599**	765
Total emoluments	**5,270**	3,912

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 paid to Cinven service fees of £0.4 million (2018: £0.4 million).

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

(d) Ultimate parent undertaking and controlling party

At 31 December 2019, 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 Cinven Partners LLP. Financial statements for The Fifth Cinven Fund can be obtained from its Corporate Affairs office at Cinven, Warwick Court, Paternoster Square, London, England, EC4M 7AG.

Pomegranate Topco Limited Company is the largest and the smallest Company of undertakings for which Company financial statements are drawn up and of which the company is a member.

(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, Surrey, England, KT22 8UX.

31. Contingent liabilities and commitments

a) Capital commitments

At 31 December 2019, the Group had capital commitments related to intangible assets of £0.1 million (31 December 2018: £0.8 million). This is in respect of IT software development and IT hardware.

b) Non-cancellable operating leases

The Company leases various offices and vehicles under non-cancellable operating leases expiring within six months to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Company has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 13 for further information.

Commitments for minimum lease payments in relation to non-cancellable operating leases (under IAS 17) are as follows:

	Land & Buildings		**Other**	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
No later than one year	-	906	-	201
Later than one year and no later than five years	-	3,869	-	232
Over five years	-	2,660	-	-
Operating lease commitments	-	7,435	-	433

32. Post balance sheet events

On 24 December 2019 Mizzen Bondco Limited entered into a £190.0 million Senior Term Loan facility due 2025 with a large private investment manager. The Senior Term Loan was drawn on 16 January 2020, with its net proceeds applied towards the redemption of Mizzen Bondco Limited's existing borrowings.

The Group has seen an impact on the business in the first half of 2020 due to payment holidays introduced by the government, together with requests for forbearance. The directors have worked closely with the FCA to take the appropriate actions to pro-actively manage this process and will continue to do so. The Group is well-positioned with strong capital, funding and liquidity resources, and it aims to ensure that this remains the case. In accordance with IAS 10 *Events after the reporting period*, the directors therefore consider this outbreak to be a non-adjusting post balance sheet event as at 31 December 2019. The directors acknowledge the likelihood of a financial impact to the Group over the next financial year; however, this will require assessment once the long-term economic impact of Covid-19 is clearer.

Pursuant to the Funding II Limited's terms and conditions, the Notes of that company were redeemed on 15 June 2020. Upon redemption the company's share of assets in the Trust were assigned to PCL Funding I and were funded by PCL Funding I pursuant to the Securitisation Programme from a facility already in place with a maturity of 31 October 2022.

There were no other post balance sheet events.

33. IFRS 16 transition disclosure

IFRS 16 *Leases* replaces IAS 17 *Leases*. The adoption of this new standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 *Leases* being recognised in equity as an adjustment to the opening balance of retained earnings for the current year. Prior years have not been restated.

At the date of initial application of IFRS 16 *Leases*, 1 January 2019, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 *Leases*.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.8% for Building lease and a variable percentage depending on Vehicle for Vehicle leases.

i) Practical expedients applied:

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term, applying a single discount rate to a portfolio of leases with reasonably similar characteristics. applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

ii) The following is a reconciliation of the financial statement line items from IAS 17 *Leases* to IFRS 16 *Leases* at 1 January 2019:

	Buildings £’000	**Vehicles £’000**	**Total £’000**
Total operating lease commitments disclosed at 31 December 2018	**7,435**	**433**	**7,868**
Discounted using the lessee’s incremental borrowing rate of at the date of initial application	(869)	(39)	(908)
(Less): short-term leases not recognised as a liability	(133)	(136)	(269)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	**6,433**	**258**	**6,691**
Of which are:			
Current lease liabilities	669	182	851
Non-current lease liabilities	5,764	76	5,840
	6,433	258	6,691

D: OTHER INFORMATION

D1: Corporate Information

Directors	Andrew Chapman Anthony Santospirito Tara Waite
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 Loan Notes.

	2019 £'000	2018 £'000
Adjusted Post-Securitisation EBITDA[1]	**67,114**	60,568
Cash interest expense (excluding securitisation)[2]	**13,258**	13,258
Gross debt	**189,400**	189,400
Cash and cash equivalents[3]	**(54,538)**	(29,466)
Net debt	**134,862**	159,934
Ratio of gross debt to Adjusted Post-Securitisation EBITDA	**2.8x**	3.1x
Ratio of net debt to Adjusted Post-Securitisation EBITDA	**2.0x**	2.6x
Ratio of adjusted Post-Securitisation EBITDA to cash interest expense (excluding securitisation)	**5.1x**	4.6x

1. The calculation and full definition of Adjusted Post-Securitisation EBITDA is on page 14.
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 relate to unencumbered cash of £54.5 million (2018: £29.5 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.

On 24 December 2019 Mizzen Bondco Limited entered into a £190.0 million Senior Term Loan facility due 2025 with a large private investment manager. The Senior Term Loan was drawn on 16 January 2020, with its net proceeds applied towards the redemption of Mizzen Bondco Limited's existing borrowings.