

# **Mizzen Mezzco Limited**

**Annual Report and Financial Statements**

**for the year ended 31 December 2017**

**Registered Number: 08179245**

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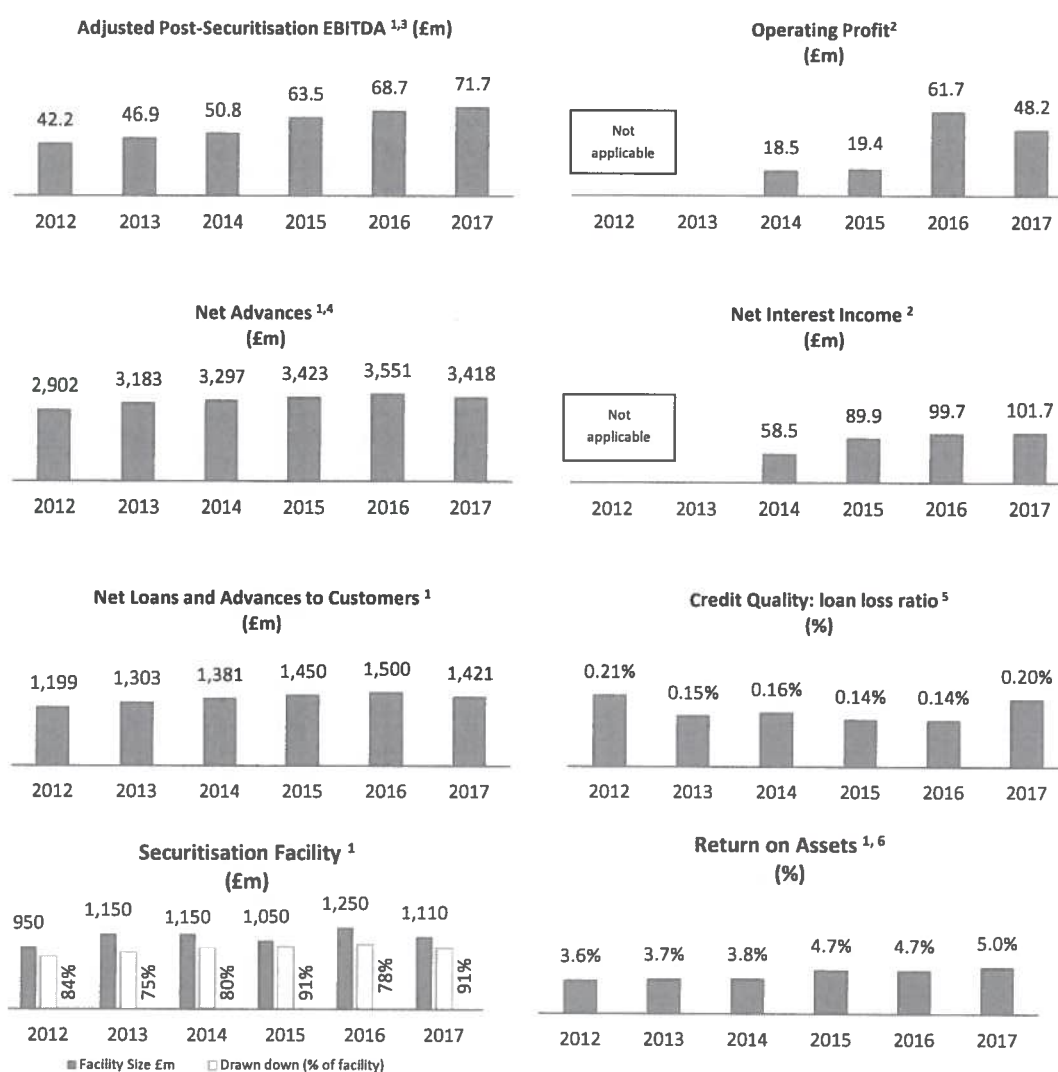
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## FINANCIAL HIGHLIGHTS

The Group has made steady progress during the year. Net interest income increased by 2.0% to £101.7 million, despite a decline in net advances to customers by 3.7% to £3,418 million. Operating profit reduced by £13.5 million to £48.2 million, driven primarily by higher administration costs as we invest in the business. Adjusted Post-Securitisation EBITDA<sup>3</sup> improved by 4.4% to £71.7 million. Credit quality marginally declined with the loan loss ratio at 0.20% (2016: 0.14%) of net advances. The financial performance of the Group is discussed in more detail on page 19.



- Mizzen Mezzco Limited was incorporated on 14 August 2012 and prepared its first set of financial statements for the 17 months ended 31 December 2013. To provide meaningful comparatives, the annual results for 2012 and 2013 are taken from Premium Credit Limited, the only trading subsidiary.
- Mizzen Mezzco Limited was incorporated on 14 August 2012 and prepared its first set of financial statements for the 17 months ended 31 December 2013. Meaningful comparatives are not available for 2012 and 2013.
- Adjusted Post-Securitisation EBITDA is a profit measurement that excludes certain non-cash items, certain one-off expenses, tax and interest other than securitisation interest costs. A detailed description and a reconciliation to operating profit is shown on page 22. Pro forma adjustments have been made to 2013 and 2014 for comparability purposes.
- Net advances measures the total value of loans processed, net of cancellations and mid-term adjustments.
- The loan loss ratio is calculated by dividing the amounts written off in the year as uncollectible divided by the net advances in the year.
- Return on assets is calculated as Adjusted Post-Securitisation EBITDA divided by average net loans and advances to customers in the year.

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## A1: Chief Executive's statement

The Group continues to have a clear strategy and is achieving strong financial results, while also delivering significant change and adapting to new external challenges. The Group has performed strongly since the financial crisis in 2008, with a long track record of consistent growth in Net Advances, Earnings and Cash generation, whilst also maintaining the credit quality of our book.

2017 has been no different. We have built on our consistent financial performance and have maintained our position as the market leader for insurance premium finance in the UK and Ireland. As many businesses struggle to adapt in a rapidly changing environment, our strategy is producing consistent results which allows us to invest for future long-term growth. This year, our Adjusted Post-Securitisation EBITDA<sup>1</sup> was up by £3.0 million on 2016 at £71.7 million.

2017 has been a year of continued change both in the markets where we operate and in the regulatory and political landscape. However, our commitment towards sustained business growth, value creation and innovation for the future remains unchanged. It is clear we are in a strong financial position and are a market leader, but there is absolutely no room for complacency. We will continue to focus on growth by being the trusted finance provider in all of our chosen markets.

### Leadership

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

In July 2017, we announced that Jasan Fitzpatrick, General Counsel and Company Secretary, would be leaving the business in October 2017. We would like to thank Jasan for his significant contribution to Premium Credit. Charlie Cutler was promoted to take up the role of General Counsel and Company Secretary, commencing in July 2017. Charlie joined PCL in 2014 and has done an excellent job as Head of Legal.

In October 2017, we welcomed Nayan Kisnadwala, our Chief Financial Officer, to the Board, whereas all other non-executive Directors resigned from the Board on 23 October 2017. This was in anticipation of the planned simplification of the Group structure.

In December 2017, we appointed Duncan Gray as Chief Information Officer to replace Mark Dearnley. Duncan joins from BCA Marketplace plc, where he was a Group CIO, and he also brings extensive experience from his previous leadership roles at Selfridges Group and House of Fraser. We wish Mark well and thank him for his contribution to both the IT team and the Company. Notably, he completed our internal datacentre move, improved our IT resilience and has led numerous enhancements to our digital offering, systems efficiency, cybersecurity and regulatory capability.

We recognise the importance of IT in our chosen markets and IT innovation will be one of our key differentiators. Duncan will continue to implement and direct our Digital strategy, improving our capability and IT infrastructure, and continuing to improve our broker integration and customer journeys.

In early 2018, we appointed James Radford as Chief Operating Officer, replacing Edward Lunn, our Interim COO. James joins us in April 2018 from the Cheque & Credit Clearing Company, where he was Chief Executive. He also brings with him a broad range of operational and leadership experience in consumer finance, and we are delighted that he is joining us.

Jill Tennant, our HR Director, formally joined the Executive Committee in January 2018, reflecting the importance of our colleagues in achieving our strategic objectives.

## Market

The premium finance market continues to evolve at a rapid pace, particularly in respect to regulatory and technology change, which presents new opportunities for those able to adapt. We have seen continued strengthening in our relationships with intermediaries; notwithstanding the loss of two broker relationships as a result of market consolidation, we were delighted to retain and extend various contracts (or agree contracts in principle) for many of our largest intermediaries which were due for renewal this year (five out of the top ten intermediaries up for renewal were successfully renegotiated). While each renewal was competitive, with some margin pressure, we are especially pleased to have secured additional volume commitments as part of the renewal process, creating a solid platform for growth.

In late 2017, we implemented the first market driven rate change in ten years as a result of the Bank of England Base Rate increase in November 2017. In 2018, we are preparing for the further expected increases in the Base Rate.

## Technology

Our continuing investment in technology has three key strategic aims:

1. To develop an unrivalled customer experience in all of our chosen markets.
2. To provide improved efficiency for our intermediaries through improved integration and enhanced services.
3. To build a digital sales process, which enables all our intermediaries to consistently present finance offers at the point of sale to acquire and retain more customers, while meeting regulatory and compliance expectations.

Having implemented our new loan administration system, which replaced our legacy system, in 2017 we have begun to deliver changes that leverage this new platform and address historical functional gaps.

Our investment in client facing technology programmes, EPICC (Electronic Payments for Insurance Customers and Clients) and FITS (Fully Integrated Transaction Service) has continued. Both point of sale systems are live with a number of our intermediaries, and we are in the process of delivering functional enhancements prior to roll out across the wider intermediary base. We continue to work closely with all the major insurance broker software platforms, to improve integration and premium finance functionality.

In 2017, we have made significant changes to our affordability and customer onboarding applications. We have successfully brought significantly more of our regulated Retail business in scope of an individual creditworthiness assessment, which also supports the implementation of the Fourth Money Laundering Directive.

In addition, we have continued to leverage digital technology, developing an enhanced Digital Self-Serve portal and customer app, which we are hopeful will reduce call demand and drive customer interaction online. We have also made improvements to our Interactive Voice Response (IVR) platform, which has shortened the time customers wait on the phone, while also handling over 1,000 payments each month via our Automated Payments Platform (APP). At the end of 2017, we also replaced our Contact Centre telephony platform, which will enable improved call handling and support further service enhancements.

We continue to invest in upgrading our IT infrastructure, increasing our resilience and IT security.

## EU referendum ('Brexit')

Through 2017, we have not seen any material impact arising from the EU referendum vote, other than the slight weakening of the British pound, which has had a positive impact in 2017 for our Irish business. Our underlying service is the provision and financing of insurance premiums; these are often compulsory, such as for product

and employer liability, or fleet and car insurance. Our Irish business is independently authorised and regulated by the Central Bank of Ireland, and so does not depend on EU Passporting. What remains unknown is the wider macro-economic impact of the EU referendum, including credit losses and credit demand. The Directors will continue to monitor the impact of the EU referendum on the business.

## Risks

The Group is predominantly exposed to Credit risk, Conduct risk, Operational risk, Funding and Liquidity risk and Business risk.

Credit risk is considered to be increasing, with underlying weaknesses in some sectors of the UK economy. Given that much of our lending is on a recourse basis, the underlying obligor (borrower) Credit experience continues to be broadly positive. However, in relation to our Counterparty risk, we have seen two examples of insurer failures – Gable and Enterprise Insurance – which may be evidence of further counterparty risks. We continue robust counterparty underwriting and governance oversight. In addition, we saw one significant intermediary failure, which as a recourse counterparty and service provider, has impacted our credit losses.

Operational risk is raised, but stable, given the large volume of transaction we process, and as we continue to strengthen our operational controls and deliver functional improvements. We are strengthening our IT change and delivery capability, to improve our IT service and reduce IT incidents.

Funding risk and liquidity risks are considered to be lower, with our securitisation programme providing access to sustainable funding and the new Master Trust structure supporting our funding diversification. Following the successful settlement of our inaugural public ABS transaction in June 2017, we were pleased to complete our second market transaction in November 2017. Both the issues had over subscription across the capital structure. The Base Rate increase in November 2017 has led to an increase in LIBOR, which will have a negative impact on our funding costs, prior to offsetting actions.

All other risks are considered to be at the same level as 2017.

The Board oversees our risk exposure through a risk management framework designed around three lines of Defence methodology. A full description of the principal risks facing the business, together with how they are managed, is set out on page 37.

## Regulatory Landscape

On 1 April 2014, the regulation of Consumer Credit passed from the Office of Fair Trading to the Financial Conduct Authority (FCA).

We were pleased to obtain full authorisation from the FCA in July 2017. As part of our regulatory engagement, we have implemented an enhanced approach to affordability assessment. The changes incorporate additional credit worthiness assessments based upon a lower loan value threshold and the use of external credit reference agency data to assess the applications for new business for regulated lending. The revised approach was implemented on a phased basis, so we could monitor the impact it may have on our operational and credit processes, while ensuring good outcomes for customers. This new approach will potentially have an impact on our financial metrics, in terms of lower income and incremental expenses, but a limited impact on our credit losses as most of our regulated retail business is written on a recourse basis. The FCA is currently consulting on a revised affordability and credit worthiness approach, and potential changes to its CONC rules.

In addition, we are implementing changes arising from the Fourth Money Laundering Directive and have made good progress for GDPR and impending future SMCR regulatory requirements.



**Our People and the Future Outlook**

I would like to thank all our colleagues who have contributed to making us the market leader that we are today, and for serving our intermediaries and customers. Our success and continued future growth is dependent on the commitment of our employees and our ability to develop outstanding products and services for our customers. 2017 has been a year of significant change, but we can look ahead with confidence, knowing that we can build on this year's investments and innovations. We are also focused on making Premium Credit a great place to work. This has included moving to our new Leatherhead head office and conducting regular colleague surveys, which are driving our People plan.

In 2018, we look forward to consolidating these changes and making progress towards our strategic aims. We remain confident that our strategy and our proven business model will continue to provide long term and sustainable value for our customers, employees, shareholders and intermediaries. We will pursue continued growth in our core markets, expanded relationships with new intermediaries and seek to exploit opportunities within adjacent, high value segments.

**Thomas Woolgrove****Chief Executive Officer**

## A2: Purpose, vision and values

### Our Purpose

**We enable customers to manage their payments more easily.**

### Our Vision

**To be the trusted finance provider in our chosen markets.**



### Our values

#### **Considerate**

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

#### **Collaborative**

We work, succeed and celebrate together.

#### **Accountable**

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

#### **Driven**

We passionately strive for excellence and continuous improvement.

## A3: Business model

Premium Credit Limited, the Group's principal trading subsidiary, helps almost 2.5 million customers to manage their finances. The Group has a clear strategy to deliver consistent growth and earnings for our shareholders.

### What we do

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

### How we do it

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

### Why we have been successful

Our size and long operational history has allowed us to develop an advanced and scalable Information Technology system, which helps us to provide our intermediaries and other clients with funding propositions through regulatory compliant customer journeys. Our scale allows us to efficiently adapt our systems and processes to changes in regulation and customer expectations. We are able to service a high volume of payments and collect amounts outstanding on our advances on a reliable and continual basis. We work with a diverse network of over 3,000 leading brokers, insurers and other intermediaries who offer our financing products to end-customers. We believe we have strong and resilient relationships with our key intermediaries.

### Why what we do matters to people

#### End customers

As the finances of people and businesses in the UK and Ireland are put under pressure due to the macro-economic and political environment, our end customers are looking for alternative ways to finance large annual payments and manage their cashflows. These items include critical purchases such as insurance and large one-off business payments, in addition to finance of aspirational and leisure pursuits such as private school fees and golf club membership.

#### Intermediaries

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

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

### How we generate income

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

## Our market position

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

## Our Competitors

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

## Our competitive advantage

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

- Long term strategic partnerships – we are one of only two major providers in the instalment fee lending market in the insurance industry. We have long-established relationships and our expertise is highly valued as part of our overall service proposition, with 9 of our current top 10 intermediaries having worked with us for more than 10 years.
- Technology platform and integration – our information technology platform enables point of sale financing and is integrated with our distributed network partners' businesses, which improves the efficiency of their operating model. Our system becomes an integral part of their payments processing. We are increasingly offering tools to enable end customers to self-serve, making transactions and servicing as simple as possible and enhancing our customer service.
- Scale and scalability – our efficient and accessible systems process appx. 28 million direct debit transactions in a year on behalf of over 2.5 million customers.
- Deep insurance industry and credit expertise – our financing solutions provide us with multiple layers of credit protection; our credit loss rate in 2017 averaged 0.20% of our net advances in the year (2016: 0.14%). These loss rates are significantly lower and less volatile than other forms of consumer finance.
- Our innovation, investment in technology and marketing strategy have been critical in changing the way the market operates and maintaining our leading position within it, whilst diversifying our revenue streams through the targeting of additional high value segments.

## A4: Strategy

The 2017 results show our business leading the market. Our strategic planning constantly evaluates new developments in the market and our strategic objectives are revised accordingly. We are identifying new opportunities where our technology can be adapted and utilised by a growing number of users.

### Our Earnings

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

### Our Objectives

Our objectives are to:

1. Develop technology solutions which deliver unrivalled customer experience, enhanced analytics and reduced costs through increased integration and efficiency.
2. Invest in innovation to make sure our technology is leading the market, rather than reacting to the dynamic evolution of the industries in which we operate.
3. Create a strong risk and governance framework which ensures fair outcomes for customers, complies with regulatory requirements and helps our intermediaries to manage their legal and regulatory obligations.
4. Maintain a secure, diverse and stable funding structure.
5. Develop and grow relationships which add value for intermediaries and our mutual customers.
6. Look to secure the most talented staff available in the market and to develop their capabilities.

#### **To develop technology solutions which deliver an unrivalled customer experience, enhanced analytics and reduced costs through increased integration and efficiency**

The majority of our lending is integrated into our partner's point-of-sale. Our technology allows straight through and automated processing which reduces manual intervention and creates significant cost savings. We process close to 28 million direct debits each year which requires stable and resilient operating platforms.

We will continue to invest in our technology infrastructure and platforms to enhance our product and service offerings. Our strategy is to integrate further with our intermediaries to improve the overall customer experience, which is one of the key differentiators in the market.

#### **To invest in innovation to ensure our technology is leading the market, rather than reacting to the dynamic evolution of the industries in which we operate**

Following the implementation of a new loan administration system in 2016, we have focused our investment in client facing technology programmes such as EPICC (Electronic Payments for Insurance Customers and Clients) and FITS (Fully Integrated Transaction Service). Both systems are live with a number of intermediaries, and we are in the process of delivering functional enhancements and continuous improvement to these offerings prior to roll out across the wider intermediary base. The deployment of our new loan administration system is allowing us to leverage new digital technology to provide a seamless customer journey.

We have a dynamic, scalable platform which can provide our intermediaries with bespoke solutions. It also enables us to adapt to regulatory change, delivering complaint customer journeys for our partners.

**To create a strong risk and governance framework, which ensures fair outcomes for customers, mitigates regulatory risks and helps our intermediaries to manage their legal and regulatory obligations**

As a financial services institution, regulation is an ever-present factor in our market. Our aim is to ensure that we grow at a sustainable rate and minimise any regulatory risk within our business both for ourselves and our intermediaries.

Premium Credit Limited is regulated by the Financial Conduct Authority. We have enhanced our approach to assessing affordability in 2017 to ensure we continue to deliver fair outcomes to our customers. We will continue to assess the impact of these changes on our customers and make further adjustments if necessary in the future. Given the high number of customers we serve, we will continue to manage our business within a strong compliance risk and governance framework, and will continue to invest in strengthening our operational processes and controls to ensure fair outcomes for our customers.

The Group is exposed to a variety of risks, particularly Credit, Conduct, Operational, Cyber and Liquidity risks. For Credit risk, the Group has multiple layers of credit protection available. These protections arise as our earnings stream derives predominantly from the financing of cancellable and rebateable services. As a result, our loss rates are low, and show little volatility through the economic cycle. We will continue to invest resources in strong credit and counterparty underwriting to maintain these low loss rates and are enhancing our affordability and credit assessment processes to ensure appropriate outcomes for our customers.

**To maintain a secure, diverse and stable funding structure**

Funding is primarily provided by a £1,109.5 million (2016: £1,250.0 million) securitisation funding facility, which comprises £544.0 of private banking facility and £565.5 million of public asset backed securities. As at 31 December 2017, £1,005.2 million was drawn down on this facility (2016: £990.4 million).

The Group amended the terms of its securitisation programme in December 2016 to create a Master Trust (via PCL Asset Trustee Limited) which facilitates the issuance of term notes alongside the (the "VFN Facility"). The Master Trust became operational in February 2017.

In June 2017, an initial public issuance was launched via a new Special Purpose Vehicle (SPV), PCL Funding II, of a 3 year £300 million revolving period facility, consisting of "A", "B" and "C" Notes rated by Moody's and DBRS and unrated "D" Notes, with a re investment period end date of 15 June 2020.

In November 2017, a second public issuance was launched via a new SPV, PCL Funding III, of a 3.6 year £300 million revolving period facility, consisting of "A", "B" and "C" Notes rated by Moody's and DBRS and unrated "D" Notes, with a re investment period end date of 15 June 2021.

The business is committed to an annual issuance program of three-year public notes, subject to underlying business growth and market conditions, allowing it to diversify its funding whilst mitigating refinancing risk. The Group expects some headwinds in macroeconomic (e.g. Brexit, tightening monetary policy) and technical (the cessation of the BoE's Term Funding Scheme (TFS)) factors in 2018.

In August 2017, the business agreed the extension of the securitisation notes issued by PCL Funding I Ltd until August 2020 and reduced the VFN facility size to £850.0 million. In November 2017, following the second issuance of public notes, it reduced the VFN facility further to £544.0 million.

**To develop and grow relationships which add value for our intermediaries and our mutual customers**

Our distribution strategy has three clear aims:

1. To deepen our relationships with existing intermediaries.
2. To identify new opportunities in markets that can benefit from our technology, lending and regulatory expertise.
3. To reduce processing costs and add value for our customers through an improved experience.

Our focus is on providing affordable instalment credit to help individuals and businesses have smooth cash flows during the year. We believe this area of the market offers strong margins and sustainable returns and is valued by customers. We lend to a wide customer base which means that our credit risk is highly diversified.

We manage, monitor and support our intermediaries via a dedicated and experienced relationship team to ensure dealings with our customers are ethical, comply with relevant regulatory requirements and are of a consistently high standard. In addition, we support them with training, consultancy and market analytics to help them optimise performance and prepare the future changes in the industry. Our dedicated support for our intermediaries is a key differentiator versus our competitors.

We have improved our market-leading analytics and insight to support our intermediaries' performance management and objectives. In 2017, we worked with our intermediaries to improve customer retention, providing training in sales and developing customer communication skills. The result has been improved customer management throughout the cycle. We have begun to measure Customer Satisfaction (CSAT) and collecting customer feedback to improve our customer service.

**To secure the most talented staff available in the market and to develop their capabilities**

The wellbeing, engagement and development of our employees is critical to the growth of the Group. Moving to our new offices in Leatherhead at the end of 2016, has enabled, amongst other things, all our UK colleagues to be based in one office. This has enabled greater collaboration and closer working with co-dependent teams.

Additionally, we have initiated a programme of regular colleague surveys, obtaining feedback which is driving our people plan, with the ultimate aim of making the organisation a great place to work and increasing the engagement of our employees. During 2017, there was noticeable improvement in colleague engagement, but we are focused on making further improvements, especially in colleague empowerment and our leadership capability.

Our average tenure for employees has fallen during 2016 and 2017. This is in part due to shift in types of available roles and also in part due to the highly competitive talent market. Whilst UK unemployment is at its lowest points since the 1970's, it is lower still in Surrey where most of our roles are based. Whilst the average tenure is still at a good level of 5.9 years, this trend highlights the importance of attracting, developing and retaining good people.



## A5: Principal risks and uncertainties

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

Category	Risk	Description
<b>Conduct and Compliance</b>	Fair outcomes	Failure to deliver appropriate customer outcomes would damage the Group's reputation and its financial performance.
	Regulatory	Failure to comply with regulatory requirements would risk financial and reputational damage. The Group operates in increasingly highly regulated sectors.
<b>Operational</b>	Process	Manual errors, control failures or internal / external fraud could result in losses.
	People	Losses may arise from errors made by our staff or by staff of third parties we choose to partner with. Losses may also emerge from acts inconsistent with employment or health and safety laws / agreements.
	Systems	Substantial IT systems are required to support the Group's operations and guard against cyber-attack. System failures or major data breaches could result in operational losses, reputational damage or regulatory censure and/or fines.
<b>Funding and Liquidity</b>	Interest Rate	Risk of adverse consequences from a change in interest rates that arises due to differences in the timing or basis, of interest rate changes on PCL assets and liabilities resulting in reduced Net Interest Income
	Liquidity and capital	Risk that insufficient cash will be generated/available from either assets or liabilities or outside sources to meet anticipated current or future funding requirements
	Foreign exchange	Profitability could be eroded by movements in foreign exchange rates.
<b>Credit</b>	Customer	Lending may be incorrectly targeted, or customers may become less able to repay debt, exposing the Group to losses.
	Counterparty	Failure of our intermediaries / insurers and ability to recover outstanding balances or recourse in the event of customer default.
<b>Business</b>	Economic and Competition	A severe downturn in the UK and Ireland may restrict our customers' ability to pay and / or the demands for products the business funds. Profitability could be eroded by competitors.



The Group has put in place an Enterprise Risk Management Framework to manage all these risks and mitigate the exposure as practicable. Further details of the risks and mitigations are included in the Corporate Governance section, on pages 37 to 39

## A6: Key Performance Indicators

Key Performance Indicator (KPI)	Description																					
<p><b>Operating Profit (£m)</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Operating Profit (£m)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>Not applicable*</td> </tr> <tr> <td>2013</td> <td>Not applicable*</td> </tr> <tr> <td>2014</td> <td>18.5</td> </tr> <tr> <td>2015</td> <td>19.4</td> </tr> <tr> <td>2016</td> <td>61.7</td> </tr> <tr> <td>2017</td> <td>48.2</td> </tr> </tbody> </table>	Year	Operating Profit (£m)	2012	Not applicable*	2013	Not applicable*	2014	18.5	2015	19.4	2016	61.7	2017	48.2	<p>Operating profit measure Group's total revenue less total administrative expenses. It also excludes any finance income or expense.</p> <p>*Mizzen Mezzco Limited was incorporated on 14 August 2012 and prepared its first set of financial statements for the 17 months ended 31 December 2013. Meaningful comparatives are not available for 2012 and 2013.</p>							
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<p><b>Net Advances (£m)</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Net Advances (£m)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>3,183</td> </tr> <tr> <td>2014</td> <td>3,297</td> </tr> <tr> <td>2015</td> <td>3,423</td> </tr> <tr> <td>2016</td> <td>3,551</td> </tr> <tr> <td>2017</td> <td>3,418</td> </tr> </tbody> </table>	Year	Net Advances (£m)	2013	3,183	2014	3,297	2015	3,423	2016	3,551	2017	3,418	<p>Net Advances measure the total value of advances processed, net of cancellations and mid-term adjustments. This is a leading indicator of future income that will be generated by the business.</p>									
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2014	3,297																					
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2016	3,551																					
2017	3,418																					
<p><b>Adjusted Post-Securitisation EBITDA (£m)</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Adjusted Post-Securitisation EBITDA (£m)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>46.9</td> </tr> <tr> <td>2014</td> <td>50.8</td> </tr> <tr> <td>2015</td> <td>63.5</td> </tr> <tr> <td>2016</td> <td>68.7</td> </tr> <tr> <td>2017</td> <td>71.7</td> </tr> </tbody> </table>	Year	Adjusted Post-Securitisation EBITDA (£m)	2013	46.9	2014	50.8	2015	63.5	2016	68.7	2017	71.7	<p>Adjusted Post-Securitisation EBITDA is the Group's primary internal measure of profitability. The full definition is shown on page 22.</p>									
Year	Adjusted Post-Securitisation EBITDA (£m)																					
2013	46.9																					
2014	50.8																					
2015	63.5																					
2016	68.7																					
2017	71.7																					
<p><b>Net Loans and Advances to Customers (£m)</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Net Loans and Advances to Customers (£m)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>1,303</td> </tr> <tr> <td>2014</td> <td>1,381</td> </tr> <tr> <td>2015</td> <td>1,450</td> </tr> <tr> <td>2016</td> <td>1,500</td> </tr> <tr> <td>2017</td> <td>1,421</td> </tr> </tbody> </table>	Year	Net Loans and Advances to Customers (£m)	2013	1,303	2014	1,381	2015	1,450	2016	1,500	2017	1,421	<p>Net Loans and Advances to Customers measures the outstanding loan value at the year end. This is a leading indicator of future income and cash flows.</p>									
Year	Net Loans and Advances to Customers (£m)																					
2013	1,303																					
2014	1,381																					
2015	1,450																					
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Year	Credit Quality: loan loss ratio (%)																					
2013	0.15%																					
2014	0.16%																					
2015	0.14%																					
2016	0.14%																					
2017	0.20%																					
<p><b>Securitisation Facility</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Facility Size - Gross (£m)</th> <th>Gross Asset % to Gross Facility Size</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>1,307</td> <td>73%</td> </tr> <tr> <td>2014</td> <td>1,307</td> <td>78%</td> </tr> <tr> <td>2015</td> <td>1,193</td> <td>91%</td> </tr> <tr> <td>2016</td> <td>1,250</td> <td>78%</td> </tr> <tr> <td>2017</td> <td>1,110</td> <td>91%</td> </tr> </tbody> </table>	Year	Facility Size - Gross (£m)	Gross Asset % to Gross Facility Size	2013	1,307	73%	2014	1,307	78%	2015	1,193	91%	2016	1,250	78%	2017	1,110	91%	<p>The proportion of our securitisation drawn down relative to the total facility is a key measure of the availability of funding to facilitate growth in the loan book. Securitisation facility is defined on page 20.</p>			
Year	Facility Size - Gross (£m)	Gross Asset % to Gross Facility Size																				
2013	1,307	73%																				
2014	1,307	78%																				
2015	1,193	91%																				
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Year	Average Tenure of Employees (years)																					
2012	7.9																					
2013	7.7																					
2014	7.7																					
2015	6.7																					
2016	6.3																					
2017	5.9																					
<p><b>Customer Complaints</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Complaints per 100,000 customers</th> <th>Total complaints to FOS</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>23</td> <td>24</td> </tr> <tr> <td>2013</td> <td>39</td> <td>17</td> </tr> <tr> <td>2014</td> <td>48</td> <td>11</td> </tr> <tr> <td>2015</td> <td>62</td> <td>18</td> </tr> <tr> <td>2016</td> <td>69</td> <td>14</td> </tr> <tr> <td>2017</td> <td>192**</td> <td>30</td> </tr> </tbody> </table>	Year	Complaints per 100,000 customers	Total complaints to FOS	2012	23	24	2013	39	17	2014	48	11	2015	62	18	2016	69	14	2017	192**	30	<p>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).</p> <p>**Change in methodology to include written and oral complaints versus only written in 2016 and prior years.</p>
Year	Complaints per 100,000 customers	Total complaints to FOS																				
2012	23	24																				
2013	39	17																				
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2015	62	18																				
2016	69	14																				
2017	192**	30																				

## A7: Business review

### A7.1: Financial Review and KPI's

#### Reporting

Our ultimate controlling party, Cinven Partners, is a UK private equity fund. Accordingly, the Annual Report and Financial Statements for 2017 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.

#### Group Results

	Group Year ended 31 Dec 2017 £m	Group Year ended 31 Dec 2016 £m	Change £m	Change %
Net interest income	101.7	99.7	2.0	2.0%
Administrative expenses	65.9	52.1	13.8	26.5%
Operating profit	48.2	61.7	(13.5)	(21.9%)
EBITDA <sup>1</sup>	71.3	79.9	(8.6)	(10.8%)
Adjusted EBITDA <sup>1</sup>	85.3	85.5	(0.2)	(0.2%)
Adjusted Post-Securitisation EBITDA <sup>1</sup>	71.7	68.7	3.0	4.4%

1. Definitions of EBITDA, Adjusted EBITDA and Post-Securitisation EBITDA and a reconciliation from operating profit can be found on page 22.

#### Key Drivers

The Group delivered a satisfactory financial performance with Adjusted Post-Securitisation EBITDA of £71.7 million, an increase of 4.4%. Operating profit reduced by £13.5 million to £48.2 million. Key trading highlights of the year include:

- Increase in net interest income of 2.0% to £101.7 million (2016: £99.7 million)
- Decrease in Net loans and advances to customers by 5.3% to £1,421 million
- An increase in one-time IT expenditure of £7.6 million to £10.9 million (2016: £3.3 million).
- Decrease in the existing securitisation facility from £1,250.0 million to £1,109.5 million.

#### Net interest income

The increase in net interest income of 2.0% was primarily due to decrease in interest expense driven by the two public ABS issuances in June 2017 and November 2017 and a reduction in the VFN margin in August 2017. This was partially offset by a reduction in interest income of 0.8% due to a reduction in net advances in the year of 3.7%. The reduction in net advances was due to broker loss as a result of consolidation in the broker market and lower new business volumes from some of our retail brokers being impacted by wider macro-economic factors. Adjusting for the impact of broker loss due to market consolidation, our net advances were 3.8 % higher than last year. The business remains confident of its medium-term trajectory, with the roll out of our new point of payment platforms, which we expect will increase the take up of Insurance Premium Finance with existing intermediaries and see a healthy new business pipeline into 2018.

### Administrative expenses

Administrative expenses have increased by £13.8 million to £65.9 million (2016: £52.1 million). This is primarily driven by a £7.6 million increase of expenditure on new IT initiatives to £10.9 million (2016: £3.3 million). This expenditure represents a considerable investment in customer journeys and operating efficiency. Our objective is to deliver improvements in our finance penetration and operating leverage in the near term from these initiatives. Net Credit Losses increased by £2.0 million to £6.9 million (2016: £4.9 million). This is mainly driven by write offs due to the failure of one intermediary which went into administration.

### Operating profit and Adjusted Post-Securitisation EBITDA

The increase in net interest income has been offset by increases in expenses resulting in a reduction in Operating profit of £13.5 million to £48.2 million (2016: £61.7 million). Adjusted Post-Securitisation EBITDA increased by £3.0 million or 4.4% to £71.7 million (2016: £68.7 million) primarily due to lower funding costs. Adjusted Post-Securitisation EBITDA excludes one-time IT expenditure.

### Funding and liquidity

The Group has two sources of funding:

- Securitisation Facility** – The Group entered into a securitisation facility, backed by eligible receivables, in 2012. In December 2016, a Master Trust facility was put in place, which became effective from 2 February 2017, replacing the existing securitisation facility. This provides access to the same sources of funding as under the securitisation facility, with the addition of funding through an excess concentration series. The new structure enabled the Group to make two public Asset-backed security (ABS) issuances of £300 million each during 2017, totalling 600 million. This has diversified our funding base, further reducing liquidity risk. As at 31 December 2017, the VFN facility limit was £544.0 million with six leading banks as counterparties. In August 2017, the final legal maturity date of the Securitisation Notes was extended to August 2022. £6.6 million of fees relating to the Master Trust have been capitalised and £1.5 million of previously capitalised securitisation facility fees were expensed as a result of the above.
- High Yield Bond** – A £200 million High Yield Bond was issued in May 2014 with a coupon rate of 7% and maturity date of May 2021. The Group redeemed £10.6 million of its High Yield Corporate Bond during 2015, reducing the outstanding principal to £189.4 million.

The Group has complied with all its funding covenants in the year.

**Working capital** - Loans and advances to customers have reduced by 5.3% to £1,421.0 million at 31 December 2017 reflecting the reduction in net advances. The primary source of funding for these receivables is the securitisation facility. Trade payables have decreased by 0.9% to £408.0 million which is primarily amounts payable to intermediaries. Overall, changes in operating assets and liabilities have resulted in a cash operating inflow of £108.5 million in the year (2016: inflow £13.3 million) before changes in funding.

**Cash** - At 31 December 2017 the Group had a cash balance of £102.1 million, up 100.2% from 2016 (£51.0 million). This is after £49.6 million had been paid in dividends in 2017 (2016: £31.0 million).

**A7.2: Non-Financial KPI's****Average tenure of employees**

The average tenure of employee measures the average period of service across the workforce. The Group continues to attract and invest and capability in new talent as the business becomes more technology focused, which has resulted in a slow downward movement in this metric over the years.

**Customer complaints**

The Group maintains two KPI's for customer complaints: complaints we receive directly from customers, which is measured per 100,000 customers to normalise for volume; and the number of complaints referred to the Financial Ombudsman Service (FOS). Complaints per 100,000 customers for 2017 were 192, or 0.19% of our customers, which remains very low. In 2017, 30 complaints were made to the FOS (0.001% of our customers). We remain focused on delivering fair outcomes for all our customers and whilst noting the increase in referrals to FOS, these can be attributed to increased consumer awareness of the FOS service and does not reflect any detriment in the way in which the Group treats its customers. The majority of our FOS complaints are upheld in the Group's favour.

The increase in non-FOS complaints was a result of change in the reporting methodology. Previously only written complaints were included; however, since January 2017, both verbal and written complaints are reported. The Group looks to provide a high-quality service to remove the need for a customer to complain.

**A7.3: EBITDA****Reconciliation of Operating profit to EBITDA, Adjusted EBITDA and Adjusted Post-Securitisation EBITDA**

	2017 £'000	2016 £'000
<b>Operating profit</b>	<b>48,150</b>	<b>61,704</b>
Finance income	7	12
Finance expense	<b>(14,654)</b>	<b>(14,654)</b>
<b>Profit for the year before taxation</b>	<b>33,503</b>	<b>47,062</b>
Interest payable and similar charges	<b>32,121</b>	<b>35,057</b>
Depreciation and amortisation	<b>6,142</b>	<b>3,431</b>
Loss on disposal of fixed assets	<b>40</b>	<b>14</b>
Impairment of intangible fixed assets	-	<b>877</b>
Gain on foreign exchange	<b>(2,563)</b>	<b>(6,232)</b>
Refinancing fees	<b>2,033</b>	<b>1,113</b>
Gain on derivative financial instruments	-	<b>(1,472)</b>
Value Creation Project	-	<b>6</b>
<b>EBITDA</b>	<b>71,276</b>	<b>79,856</b>
Transaction costs	<b>366</b>	<b>365</b>
One-time IT initiatives and other non-operating costs	<b>13,671</b>	<b>5,235</b>
<b>Adjusted EBITDA</b>	<b>85,313</b>	<b>85,456</b>
Securitisation interest expense	<b>(13,655)</b>	<b>(16,739)</b>
<b>Adjusted Post-Securitisation EBITDA</b>	<b>71,658</b>	<b>68,717</b>

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

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

**A8: Sustainability report**

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

**A8.1: Employees**

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

Key people initiatives from 2017 include:

- Having completed the first year in new premises, colleagues have experienced many benefits including enhanced cross functional engagement amongst our team of more than 400 colleagues.
- A Colleague Opinion survey was conducted in January 2017, followed by a Pulse Survey in October 2017. The Group showed improvement in the scores on 94% of the questions. Employee engagement and employee empowerment both improved overall.
- The main focus of investment in training and development has been on leadership and management programmes. Sixty managers will have completed programmes by June 2018. Mandatory training has also been refreshed and a quarterly programme has been introduced including group sessions and e-learning. An apprenticeship scheme has also been launched and there are apprentices completing digital and business intelligence qualifications.
- A review of employee benefits resulted in a number of changes to make them more competitive. Development of the flexible benefits portal has increased visibility and choice for colleagues. Benefits events have been held to market the value of various plans.

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

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

**Composition of the workforce**

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



	2017		2016	
	Men	Women	Men	Women
The Board	100%	-	100%	-
Senior Management	82%	18%	83%	17%
Other Employees	52%	48%	50%	50%
<b>Total</b>	<b>54%</b>	<b>46%</b>	<b>53%</b>	<b>47%</b>

### Equality and diversity

The Group is committed to promoting equality. Decisions about recruitment, selection, training, promotion or any other aspect relating to a person's employment with the Group are made regardless of gender, sexual orientation, disability, marital status, age, race, religious or political beliefs. The HR policies have been reworked and relaunched during 2017 including a new Dignity at Work policy. Colleagues will be attending training on Diversity and Inclusion and Unconscious bias during 2018.

In March 2018, the Group published its first set of gender pay gap data. The table below shows our overall mean and median gender pay gap based on hourly rates of pay as at the snapshot date (5 April 2017). It also captures the mean and median difference between bonuses paid to men and women at the Group in the year up to 5 April 2017, i.e for the 2016 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)	50%	45.5%
Bonus amount	75%	72%

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

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

We pay equal pay for equal work and therefore addressing our gender pay gap is about increasing the proportion of women in more highly paid roles.

During 2018, the key actions that the Group is taking to improve diversity and inclusion are:

- Listen to colleagues, through our Colleague Opinion and Pulse surveys, to improve our practices and policies to improve inclusion. In 2017, we updated our Family Leave and Dignity at Work policies, and improved many of our benefits, including maternity pay.
- Have one member of our senior executive team specifically sponsor diversity and inclusion.
- Include diversity in the content of our Management Programme.
- Roll out training about Dignity at Work, Inclusion and Unconscious Bias to all colleagues.
- Expect a diversified recruitment shortlist for all management positions, meaning appropriate representation of male and female candidates being put forward for interviews.
- Wherever possible, support colleagues to balance commitments outside of work with working at the Group.



## Human Rights

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

The Group published its first statement on Modern Slavery during 2017 in accordance with the requirements of the Modern Slavery Act 2015.

## 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. There were no significant incidents in the workplace during 2017.

## 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 and business relationships. Policies in place support equal opportunities and diversity, health and safety, and anti-bribery and corruption.

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

The Group has in place competitive reward and benefit programmes, appropriate training and personal development programmes, and ways to encourage and recognise outstanding performance. The Group embraces continuous development of high performance teams and provides schemes to enable all staff to participate directly in the success of the Group.

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

The Group has an established whistleblowing policy which enables employees to speak out when appropriate, and which ensures that no employee making such disclosure will suffer any consequent disadvantage. Training on whistleblowing has been delivered to all colleagues during 2017. There were no whistleblowing incidents during the year 2017.

## A8.2: Environment

The Group provides finance via our network of intermediaries, to individuals, SMEs and companies in the UK and Ireland, and therefore its overall environmental impact is considered to be low.

The Group complies with all applicable environmental laws and regulations. We are committed to the reduction of physical waste within the business through improved recycling. We encourage the use of mobile devices, and projectors and screens in meetings. After moving to new premises at the end of 2016, work has been done to optimise printer usage. We continue to invest in digital solutions that encourage our customers to adopt "e-signing" for credit agreements and to use online portals to monitor and manage their accounts. During 2017, technological developments have enabled a substantial reduction in printing and postage from the Head Office, thus reducing the carbon footprint.

The Group operates out of two main offices located in Leatherhead and Dublin and distributes its products through a network of intermediaries. There is consequently an amount of business related travel between sites and to our intermediaries' offices. The Group has begun to measure this impact, seeking wherever possible to

minimise this through the use of alternative technologies. It continues to review all activities to identify opportunities for reducing our carbon footprint.

### **A8.3: Corporate social responsibility**

#### **Supporting the community**

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

During the year, the Group made donations of £9,229 (2016: £9,524) to charitable causes. The Group made no political donations during the year (2016: £Nil).

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

- Fundraising – supporting local community organisations, and holding quarterly fundraising days, supported by Company-matched funding;
- Volunteering – we promote local volunteering opportunities to our staff, which they may elect to participate in outside of work. For example, colleagues from the business took part in a poppy factory initiative in aid of the Poppy Appeal and colleagues delivered hampers to local residents in aid of Age Concern; and
- Donations – donated Easter and Christmas gifts to local disadvantaged children.

### **A9: Approval of Strategic Report**

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

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

Approved by the Board on 24 April 2018 and signed on its behalf by:



**On behalf of the Board**

**Thomas Woolgrove**

**Director**

**B: GOVERNANCE**

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## B1: Board of Directors

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

### Directors of Mizzen Mezzco Limited

In preparation of the planned simplification of the Group structure, the Company's Board of directors and the boards of certain other related Group companies was simplified in October 2017. All directors of Premium Credit Limited remain unchanged.

Name	Title
Thomas Woolgrove	Director and Chief Executive Officer
John Reeve	Non-executive Director (resigned 23 October 2017)
Peter Catterall	Non-executive Director (resigned 23 October 2017)
Maxim Crewe	Non-executive Director (resigned 23 October 2017)
Anthony Santospirito	Non-executive Director (resigned 23 October 2017)
Chris Burke	Non-executive Director (resigned 23 October 2017)
David Young	Non-executive Director (resigned 23 October 2017)
Nayan Kisnadwala	Director and Group Chief Financial Officer (appointed on 23 October 2017)

### Directors of Premium Credit Limited

Name	Title
Colin Keogh	Non-executive Director and Chairman
Thomas Woolgrove	Director
Nayan V Kisnadwala	Director
John Reeve	Non-executive Director
Peter Catterall	Non-executive Director
Maxim Crewe	Non-executive Director
Anthony Santospirito	Non-executive Director
Chris Burke	Non-executive Director
David Young	Non-executive Director

Brief description of Directors' business experience and qualifications:

#### **Colin Keogh - Non-executive Chairman (PCL)**

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

***Thomas Woolgrove - Chief Executive***

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

***Nayan Kisnadwala – Group Chief Financial Officer***

Nayan Kisnadwala was appointed as Group Chief Financial Officer of PCL in June 2015. Nayan has had divisional, geographic and group Finance leadership roles in the Financial Services and Payments Industries for the last three decades in the USA, UK and Asia. He has held senior roles at a number of international financial services companies including Citigroup, American Express, RBS and most recently, Barclays. He is a Chartered Accountant from India and has an MBA in Finance from Stern Business School, NYU.

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

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

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

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

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

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

***John Reeve - Non-executive Director***

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

***Chris Burke - Non-executive Director***

Chris Burke is a former Managing Director of Research in Motion across Europe, Middle East and Africa. Chris has had a distinguished career in telecommunications and technology. From 2001 to 2004, he held the position

of Chief Technology Officer at Vodafone UK, responsible for all their technology and product architecture. He is currently chairman of MusicQubed and Navmii, and holds board positions with Dialog Semiconductor, Dtex and Fly Victor. Chris graduated from Acadia University with a Bachelor's degree in Computer Science.

**David Young - Non-executive Director**

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

## B2: Executive Committee

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

Name	Title
Thomas Woolgrove	Chief Executive Officer
Nayan Kisnadwala	Group Chief Financial Officer
Simon Moran	Head of Insurance and Chief Marketing Officer
Roger Brown	Head of New Markets
Jasan Fitzpatrick	General Counsel (resigned July 2017)
Charlie Cutler	General Counsel (appointed July 2017)
Mark Dearnley	Chief Information Officer (resigned December 2017)
Duncan Gray	Chief Information Officer (appointed December 2017)
Edward Lunn	Chief Operating Officer – Interim (contracted until January 2018)
James Radford	Chief Operating Officer (appointed January 2018)
Jill Tennant	HR Director (appointed January 2018)

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

**Simon Moran - Head of Insurance and Chief Marketing Officer**

Simon Moran joined us in 1998 and, as our Head of Insurance and Marketing is responsible for sales performance. Prior to that he held senior positions in Underwriting and Sales, most recently with Transamerica Insurance Finance Company.

**Roger Brown - Head of New Markets**

Roger Brown joined us in January 2013, before which he held senior positions at various companies across the insurance industry. These included Divisional Finance Director at Capita's General Insurance Division from 2010 to 2013; Finance Director at Cullum Capital Ventures, a leading insurance intermediary consolidation group from 2005 to 2010; Director of Close Premium Finance, an insurance premium financing company from 1999 to 2005; Managing Director of Premium Payment Plan, insurance premium financing company, from 1997 to 1999; Operations Director at Transamerica Insurance Finance, a provider of financial services and insurance, from 1994

to 1997, and prior to that an Accountant at Willis Faber. Roger graduated from UCE in Birmingham with a BA in Economics and is a Fellow of the Chartered Institute of Management Accountants (CGMA).

***Charlie Cutler - General Counsel***

Charlie has over 14 experience years advising on financial services. She joined PCL in June 2014 from Royal Bank of Scotland where she led the Legal team supporting part of the Corporate Bank, including SME lending, asset finance and invoice finance. Prior to that she was a finance associate at the City law firm Herbert Smith, now Herbert Smith Freehills. Charlie replaced Jason Fitzpatrick in July 2017.

***Duncan Gray - Chief Information Officer***

Duncan joined us in December 2017. Duncan has spent the last five years as the Group CIO of British Car Auctions (BCA), which is Europe's largest digital vehicle marketplace and auction site. It is also the parent company of WeBuyAnyCar.com. The overall business has grown by 20% per annum for the last six years and digital delivery has been a key contributor to business growth. Prior to BCA, Duncan was IT Director for Selfridges Group and House of Fraser.

***James Radford - Chief Operating Officer***

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

***Jill Tennant – HR Director***

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



## B3: Corporate governance

### B3.1: Board Committees

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



#### Board

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

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

#### Audit Committee

The Audit Committee meets at least four times a year. Its current members are John Reeve (Chair), Maxim Crewe, Anthony Santospirito, Chris Burke, Colin Keogh and David Young, all of whom are non-executive directors. The Board is satisfied that all Committee members have recent and relevant financial experience. Further information on the work of the Audit Committee is provided on page 34.

#### Risk Committee

The Risk Committee comprises David Young (Chair), John Reeve, Maxim Crewe, Anthony Santospirito, Colin Keogh and Chris Burke, all of whom are non-executive directors. The Committee meets four times during the year. Further information on its work is provided on page 35.

#### Remuneration Committee

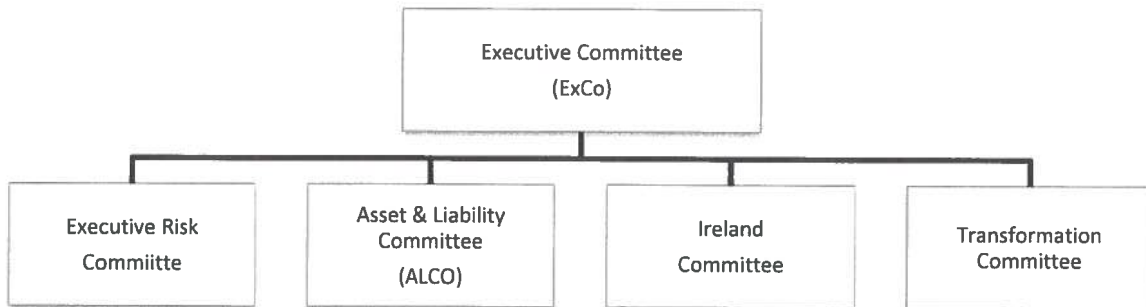
The Remuneration Committee comprises Maxim Crewe (Chair), Peter Catterall, Colin Keogh and David Young (joined in January 2018), all of whom are non-executive directors. The Committee meets twice during the year. Further information on its work is provided on page 40.



### B3.2: Executive committees

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

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



#### Executive Risk Committee

The Executive Risk Committee comprises all of the Executive Committee members and attended by heads of the relevant functions. It is chaired by the Group’s Head of Risk. The Committee is responsible for:

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

#### Asset and Liability Committee (“ALCO”)

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

**Ireland Committee**

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

**Transformation Committee**

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

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

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

**B4.2: Membership and meetings**

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

**B4.3: Significant matters addressed by the Committee**

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

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

**B4.4: Internal audit**

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

#### **B4.5: External audit**

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

#### **B4.6: Whistleblowing**

The Group has an established policy which enables employees to speak out when appropriate, and which ensures that no employee making such disclosure will suffer any consequent disadvantage.

### **B5: Risk Committee**

#### **B5.1: Statement by Chairman of the Risk Committee**

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

#### **B5.2: Risk management**

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

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

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

The Chief Executive has established an Executive Committee (ExCo) and sub-committees and details of these committees may be found on page 33.

#### **Three lines of defence model**

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







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








indicators, management information and assurance processes to ensure their control framework is robust and effective.

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







**B5.3: Principal risks and mitigation**

The Group is exposed to a variety of risks through its day to day operations. The principal risks, which are listed on page 16 of the Strategic Report, and how they are managed, are detailed below:

<b>Conduct and Compliance Risk – Fair Outcomes</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
Conduct Risk is the risk that our operating model or those of our intermediaries might lead to unfair outcomes for our customers or we fail to appropriately remediate customers when we do get it wrong.	The Group has a suite of policies focuses on the fair treatment of customers. We have an Executive Risk Committee that receives details of all operational risk incidents that have affected customers, together with actions to address any unfairness. In addition, the Committee focuses on monitoring detailed metrics that measure results for customers. Where any activities are identified that result in unfair customer outcomes, we are focused on ensuring that they are addressed as a matter of priority and that any adverse impact on the customer is promptly remedied.
<b>Conduct and Compliance Risk - Regulatory</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
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 reviews key emerging regulatory developments to assess the impact on the Group. Expert third party advice is also sought where necessary. The compliance team has developed a formal monitoring plan which is reviewed by the Executive Risk Committee and the Risk Committee. All employees are required to undertake regulatory training. There is additional regulatory focus in 2018 onwards; the Group has specific programmes and projects dedicated to meeting such new regulations. Regular updates are provided to Executive Committee (Exco) and the Board.
<b>Operational Risk – System and Process</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
The risk of loss arising from inadequate or failed internal processes, systems and from arrangements with third parties.	The management of Operational Risk continues to be an area of on-going focus. Having migrated from legacy IT platforms, the focus is now on creating a ‘best in class’ platform providing strong foundation for the future evolution of the business. To improve the overall control environment, the Group continues to make significant investment in development of risk management frameworks, systems and processes, including IT project management, implementation planning and cyber-risk management. An annual Internal Audit review plan is undertaken across a number of critical risk-based areas to provide assurance and monitoring oversight.
<b>Keys:</b> Increase  Decrease  No change 	

<b>Operational Risk – People</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
The risk of loss arising from manual errors, control failures or internal / external fraud.	The risk of loss arising from errors or fraud increases with high turnover and poorly trained staff. The Group seeks to reduce the turnover by attracting, retaining and developing staff through ongoing training and development. In addition, improvements in the control environment include focusing on reducing the reliance on key individuals through identification of alternative colleagues with similar skills and building repeatable processes which rely less on individuals and more on systems and identified controls.
<b>Interest Rate Risk</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
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.	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 Risk Committee quarterly. 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.
<b>Liquidity Risk</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
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. From 2 February 2017, the Group has implemented a Master Trust funding platform to access public markets funding alongside its existing bank funders.
<b>Foreign Exchange Risk</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
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.
<b>Keys:</b> Increase  Decrease  No change 	



<b>Credit Risk – Customer</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
PCL provides finance to individuals, partnerships and companies who wish to pay annual payments in monthly instalments. There is a risk that adverse changes in the 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 borrowers default, outstanding balances are received from our intermediaries through a deduction from commission payments. For non-recourse products, the Group has credit risk policies in place setting out detailed criteria for checks that must be undertaken before a loan is made. The credit risk function reports to the Exco Risk Committee and the Risk Committee on the performance of the Group's lending portfolios. In addition, the Group has rigorous and robust processes in place to manage arrears.
<b>Credit Risk - Counterparty</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
The Group has a large number of commercial arrangements with credit intermediaries, who are the first point of contact when recourse borrowers default. These intermediaries may also be service providers to our borrowers, with the risk of high cancellations if services are no longer provided. In addition, for non-recourse lending we have commercial arrangements requiring commission payments to be paid before being collected from the borrower, or where advance finance commission payments are being made. These payments can cause an exposure whilst they are collected from the borrower for the duration of their loan. For recourse insurance premium finance, the Group is also exposed to the risk of insolvency of the underlying insurer in relation to higher cancellations or obtaining return premiums.	The Group operates an extensive 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 detailed modelling exercise to determine the level of financial risk that we are prepared to accept from any given intermediary. For insurers, regular monitoring and evaluation of exposure and financial condition is undertaken, especially for unrated insurers. The credit risk policy was reviewed and updated in 2017 to more proactively identify and mitigate counterparty risk.
<b>Business Risk – Economic and Competition</b>	<b>Risk direction:</b> 
<b>Description</b>	<b>Mitigation</b>
The risk of loss arising from the failure of the Group's strategy or management actions beyond the planning horizon. The business faces competition from other providers of insurance premium and service fees financing in the UK and Ireland, as well as from providers of alternative forms of credit. Deteriorating economic conditions may reduce demand for our advances or the products for which we provide advances, and this would materially and adversely affect our financial health and operational results. We depend on our network of intermediaries to sell advances, and any changes to our relationships with them could have similar consequences.	The Group has a strong record of operating successfully in its chosen markets throughout its over 28 year history, which it has achieved by continually improving its service proposition. The Group maintains strong relationships with its business intermediaries, customers and software house integrators. It is active in industry-wide groups that enable market trends to be identified and addressed. It also monitors competitors' products, pricing and positions to enable it to keep its own proposition under review. The Group continues to monitor the uncertainty around Brexit combined and further possibility of interest rate rises closely. By maintaining a strong financial and liquidity position we aim to be able to absorb short-term economic downturns.
<b>Keys:</b> Increase  Decrease  No change 	

## **B6: Remuneration Committee**

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

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

### **B6.2: Membership and meeting**

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

### **B6.3: Significant matters addressed by the Committee**

The Committee considered a number of topics, in particular:

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



## B7: Report of the Directors

The Directors present their report and the audited consolidated financial statements for the Group for the year ended 31 December 2017.

### 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

Names of the Directors who served during the year and up to the date of signing the financial statements may be found on page 28.

Cinven is determined by the Board to be the ultimate controlling party. No Director has an interest in the company's shares. A register of Directors' business interests is held by the Company Secretary.

### Directors' indemnity and liability insurance

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

### Business review and future developments

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

The table below identifies specific information on the Business review:

Content	Section	Page
<b>A detailed review of the Group's business and future developments</b>	Chief Executive's statement Business review	6 19
<b>Principal risks and uncertainties</b>	Principal risks and uncertainties	16
<b>Environmental matters, employee information and community issues</b>	Sustainability report	23
<b>Corporate governance</b>	Corporate governance	32

**Key Performance Indicators**

Key Performance Indicators are used to measure and control both financial and operational performance. Revenues, operating margins, costs and cash are monitored to ensure that plans are on track and corrective actions are taken where necessary. Operational service performance is also monitored. Key performance indicators are discussed on page 18.

**Conduct Risk**

Conduct Risk is central to the Financial Conduct Authority's principles for conduct of business and is a core strategic value embedded into our business model. These strategic values are designed to underpin the longevity of our business model by ensuring that customer outcomes match their understanding and expectations and are balanced with our business objectives.

**Employees**

The Group is committed to attracting, developing and retaining the best talent in order to achieve its strategic objectives. Internal communications have been enhanced providing more detailed information and understanding for staff on the progress and development of the Group. Staff engagement has been increased through the establishment of staff social committees. The Group is committed to employment policies which follow best practice on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled, the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary. Further information on employees may be found on page 23.

**Supplier payment policy**

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

**Principal risks and uncertainties**

The Group, through its operations, is exposed to a number of risks. Further information is provided in the Risk Management Approach on page 35.

**Results and dividends**

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

The Directors paid dividends of £49.6 million during 2017 (2016: £31.0 million). No further dividend has been proposed.

Details of the results for the year are set out in the Consolidated income statement on page 51.

## 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 14 to the financial statements.

## Going concern

The Group has strengthened its funding position during the year. In December 2016, a Master Trust was put in place which became effective 2 February 2017, replacing the existing securitisation facility. This provides access to the same sources of funding as under the securitisation facility, plus allows access to public Asset-backed security (ABS) funding. This diversified our funding base, further reducing liquidity risk. The implementation of the Master Trust also added two further liquidity protection features: 1) Asset grandfathering which allows us to report assets impacted by a merger in line with their pre-merger classification. This protects business from immediate excess concentrations caused by market consolidation, with any excess concentration building over time as we write new assets through the combined entity; 2) Excess concentration facility which provides funding for excess concentration driven by external events, allowing us to obtain funding for assets written with the newly combined entity whilst modifications are made to the existing funding lines.

We have successfully completed the inaugural issue of an ABS bond in June 2017 and a second issuance in November 2017, each for £300.0 million. As a result of this funding, the existing VFN facility was reduced to £544.0 million in November 2017 (2016: £1,250.0), taking the number of counterparties down to six (2016: seven). In August 2017, the final legal maturity date of the Securitisation Notes was extended to 10 August 2022.

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

## Post balance sheet events

There were no post balance sheet events.

## Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent 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 parent Company and of the profit or loss of the Group and parent Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent 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 also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Approved by the Board on 24 April 2018 and signed on its behalf by:



**On behalf of the Board**

**Thomas Woolgrove**

**Director**

**C: FINANCIAL STATEMENTS**

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## C: FINANCIAL STATEMENTS

### *C1: Independent auditors' report to the members of Mizzen Mezzco Limited*

#### Report on the audit of the financial statements

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##### **Opinion**

In our opinion:

- Mizzen Mezzco Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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 IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2017; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

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##### **Basis for opinion**

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

##### **Independence**

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

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

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2017 to 31 December 2017.



## Our audit approach

### Overview



- Overall group materiality: £2,059,000 (2016: £2,128,000), based on 2.5% of earnings before interest, tax, depreciation and amortisation.
- Overall parent company materiality: £584,000 (2016: £574,000), based on 1% of total assets.
- The Group financial statements are a consolidation of 12 statutory entities, including 1 trading company, Premium Credit Limited and 3 entities with external listed debt, Mizzen Bondco Limited, PCL Funding II PLC and PCL Funding III PLC.
- Premium Credit Limited was the only component in scope for the group audit. Where there were material external balances in other entities these were audited to the group materiality.
- Revenue recognition - Effective Interest Rate.
- Recognition and measurement of listed debt on balance sheet.

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the group and parent company financial statements, including, but not limited to, the Companies Act 2006, the Financial Conduct Authority regulation and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors, enquiries of management 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.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### 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

##### 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 IAS 39 - Financial Instruments. Any account fees and direct transaction costs that form an integral part of the yield are included in the EIR. Given the magnitude of interest income, managements' correct application of EIR creates a higher risk of material misstatement due to error or fraud.

Refer to note 2(d), 3(b) and 5 of the financial statements for the directors' disclosures of the related accounting policies

#### How our audit addressed the key audit matter

We assessed whether the EIR calculation was in accordance with IAS 39 – 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 IAS 39 - Financial Instruments.



**Key audit matter**

**How our audit addressed the key audit matter**

and associated financial statement note.

**Recognition and 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 2013 (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 will be reduced by any capital redemptions occurring during the year.

We therefore focused part of our testing on the initial recognition of the new loan notes and year end measurement of the loan notes in total.

Refer to note 2(i) and 20 of the financial statements for the directors' disclosures of the related accounting policies and associated financial statement note.

We assessed whether the initial recognition and measurement of the loan notes were in accordance with IAS 39 – Financial Instruments. We undertook the following procedures to test the measurement of the loan note:

- Confirmed the initial loan note issuance to third party supporting evidence from the Irish Stock Exchange.
- Confirmed the contractual amounts outstanding at the year-end to confirmation from the issuing bank.
- Tested the interest expense through recalculation and reference to contractual agreement.

Through the procedures detailed above, we have determined that the recognition and measurement of the listed debt was in accordance with IAS 39 – Financial Instruments.

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

**How we tailored the audit scope**

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

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

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

**Materiality**

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

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

	<b>Group financial statements</b>	<b>Parent company financial statements</b>
<b>Overall materiality</b>	£2,059,000 (2016: £2,128,000).	£584,000 (2016: £574,000).
<b>How we determined it</b>	2.5% of earnings before interest, tax, depreciation and amortisation.	1% of total assets.
<b>Rationale for benchmark applied</b>	Based on the benchmarks used in the annual report, earnings before interest, tax, depreciation and amortisation is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	As the entity is established as a holding company, it would follow that users may focus their attention on the total assets. It is therefore considered appropriate that overall materiality be calculated at 1% of total assets.

Premium Credit Limited was the only component in scope for the group audit and was audited to a materiality of £2,059,000. Where there were material external balances in other entities these were audited to the same materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £102,950 (Group audit) (2016: £106,400) and £29,200 (Parent company audit) (2016: £28,700) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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## 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 when:

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

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

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## 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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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## 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 43 and 44, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditors' responsibilities for the audit of the financial statements*

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

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

### *Use of this report*

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

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

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### **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 6 years, covering the years ended 31 December 2012 to 31 December 2017.



Matthew Falconer (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
25 April 2018

**C2: Consolidated income statement**

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Interest income		119,133	120,098
Interest expense		(17,467)	(20,403)
<b>Net interest income</b>	5	<b>101,666</b>	99,695
Fee and commission income	6	16,188	18,725
Fee and commission expense	7	(3,787)	(6,070)
Gain on derivative financial instruments	8	-	1,472
<b>Total income</b>		<b>114,067</b>	113,822
Administrative expenses	9	(65,917)	(52,118)
<b>Operating profit</b>		<b>48,150</b>	61,704
Finance income	11	7	12
Finance expense	12	(14,654)	(14,654)
<b>Profit before taxation</b>		<b>33,503</b>	47,062
Income tax expense	13	(4,421)	(3,292)
<b>Profit for the financial year</b>		<b>29,082</b>	43,770

The notes on pages 51 to 91 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 2017

	Notes	2017 £'000	2016 £'000
<b>Profit for the financial year</b>		<b>29,082</b>	<b>43,770</b>
<b>Other comprehensive income</b>			
<b>Items that may subsequently be reclassified to the profit or loss:</b>			
Foreign currency translation gains	23	730	2,087
<b>Other comprehensive income for the year</b>		<b>730</b>	<b>2,087</b>
<b>Total comprehensive income for the year</b>		<b>29,812</b>	<b>45,857</b>

**C4: Consolidated balance sheet**

As at 31 December 2017

	Notes	31 Dec 2017 £'000	31 Dec 2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	14	11,661	9,834
Property, plant and equipment	15	4,467	6,188
Loans and advances to customers	16	3,087	3,319
Prepayments and other receivables	17	3,298	4,026
Deferred tax asset	18	236	471
<b>Total non-current assets</b>		<b>22,749</b>	<b>23,838</b>
<b>Current assets</b>			
Loans and advances to customers	16	1,417,609	1,496,840
Prepayments and other receivables	17	7,860	5,895
Corporation tax receivable		1,578	-
Cash and cash equivalents	19	102,097	51,013
<b>Total current assets</b>		<b>1,529,144</b>	<b>1,553,748</b>
<b>Total assets</b>		<b>1,551,893</b>	<b>1,577,586</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	20	1,184,317	1,172,091
Trade and other payables	21	-	9,559
<b>Total non-current liabilities</b>		<b>1,184,317</b>	<b>1,181,650</b>
<b>Current liabilities</b>			
Corporation tax payable		-	426
Trade and other payables	21	426,919	435,074
<b>Total current liabilities</b>		<b>426,919</b>	<b>435,500</b>
<b>Total liabilities</b>		<b>1,611,236</b>	<b>1,617,150</b>
<b>Equity</b>			
Called up share capital	22	44,502	44,502
Retained earnings		(105,980)	(85,471)
Other reserves	23	2,135	1,405
<b>Total shareholders' equity</b>		<b>(59,343)</b>	<b>(39,564)</b>
<b>Total liabilities and equity</b>		<b>1,551,893</b>	<b>1,577,586</b>

The financial statements on pages 51 to 91 were approved by the Board on 24 April 2018 and signed on its behalf by:



**Thomas Woolgrove**  
Director



**C5: Company balance sheet**

As at 31 December 2017

	Notes	31 Dec 2017 £'000	31 Dec 2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	24	44,502	44,502
Prepayments and other receivables	17	13,871	13,000
<b>Total non-current assets</b>		<b>58,373</b>	<b>57,502</b>
<b>Current assets</b>			
Prepayments and other receivables	17	23	10
<b>Total current assets</b>		<b>23</b>	<b>10</b>
<b>Total assets</b>		<b>58,396</b>	<b>57,512</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	21	-	9,559
<b>Total non-current liabilities</b>		<b>-</b>	<b>9,559</b>
<b>Current liabilities</b>			
Trade and other payables	21	382	223
<b>Total current liabilities</b>		<b>382</b>	<b>223</b>
<b>Total liabilities</b>		<b>382</b>	<b>9,782</b>
<b>Equity</b>			
Called up share capital	22	44,502	44,502
Retained earnings		13,512	3,228
<b>Total shareholders' equity</b>		<b>58,014</b>	<b>47,730</b>
<b>Total liabilities and equity</b>		<b>58,396</b>	<b>57,512</b>

The Company made a profit of £59.9 million in the financial year (2016: £31.8 million).

Approved by the Board on 24 April 2018 and signed on its behalf by:



**Thomas Woolgrove**  
Director



**C6: Consolidated statement of changes in equity**

For the year ended 31 December 2017

	Notes	Called Up Share Capital £'000	Retained Earnings/ (losses) £'000	Other Reserves £'000	Total Equity £'000
<b>At 1 January 2016</b>		<b>44,502</b>	<b>(98,241)</b>	<b>(682)</b>	<b>(54,421)</b>
Profit for the financial year		-	43,770	-	43,770
Foreign currency translation gain	23	-	-	2,087	2,087
Total comprehensive income for the year		-	43,770	2,087	45,857
Transactions with owners:					
Dividends paid	25	-	(31,000)	-	(31,000)
<b>At 31 December 2016 and 1 January 2017</b>		<b>44,502</b>	<b>(85,471)</b>	<b>1,405</b>	<b>(39,564)</b>
Profit for the financial year		-	29,082	-	29,082
Foreign currency translation gain	23	-	-	730	730
Total comprehensive income for the year		-	29,082	730	29,812
Transactions with owners:					
Dividends paid	25	-	(49,591)	-	(49,591)
<b>At 31 December 2017</b>		<b>44,502</b>	<b>(105,980)</b>	<b>2,135</b>	<b>(59,343)</b>

**C7: Company statement of changes in equity**

For the year ended 31 December 2017

	Notes	Called Up Share Capital £'000	Retained Earnings	Total Equity £'000
<b>At 1 January 2016</b>		<b>44,502</b>	<b>2,449</b>	<b>46,951</b>
Profit for the financial year		-	31,779	31,779
Dividends paid	25	-	(31,000)	(31,000)
<b>At 31 December 2016 and 1 January 2017</b>		<b>44,502</b>	<b>3,228</b>	<b>47,730</b>
Profit for the financial year		-	59,875	59,875
Dividends paid	25	-	(49,591)	(49,591)
<b>At 31 December 2017</b>		<b>44,502</b>	<b>13,512</b>	<b>58,014</b>

**C8: Consolidated statement of cash flows**

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Cash generated by operations	26	142,816	45,038
Interest paid		(28,487)	(29,996)
Income tax paid		(5,875)	(1,789)
<b>Net cash flows generated from/(in) operating activities</b>		<b>108,454</b>	<b>13,253</b>
<b>Cash flows used from investing activities</b>			
Purchase of intangible fixed assets	14	(4,864)	(7,232)
Purchase of property, plant and equipment	15	(1,458)	(4,612)
Proceeds from disposal of plant and equipment		34	-
<b>Net cash used in investing activities</b>		<b>(6,288)</b>	<b>(11,844)</b>
<b>Cash flows from financing activities</b>			
Increase in borrowings		4,967	35,171
Facility fees paid		(6,589)	(3,375)
Dividends paid to shareholders	25	(49,591)	(31,000)
<b>Net cash flows (used in)/generated from financing activities</b>		<b>(51,213)</b>	<b>796</b>
<b>Net increase in cash and cash equivalents</b>		<b>50,953</b>	<b>2,205</b>
Cash and cash equivalents at beginning of year		51,013	47,987
Foreign currency translation gains		131	821
<b>Cash and cash equivalents at end of year</b>	19	<b>102,097</b>	<b>51,013</b>

The notes on pages 51 to 91 are an integral part of the financial statements.

## C9: Notes to the financial statements

### 1. General information

Mizzen Mezzco Limited (“the Company”), and its subsidiaries (together “the Group”), is a financial services Group specialising in funding and payment processing solutions. The Company is incorporated and domiciled in the UK. The Group has a branch in Ireland.

Details of subsidiaries and Group undertakings are provided in note 24. These company and consolidated financial statements comprise both the financial statements of the Company and Group.

### 2. Accounting policies

A summary of the principal accounting policies, which have been applied consistently to all years presented, 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 as modified by the revaluation of derivative financial instruments at fair value.

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

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

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

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

- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary, which is a party to the transaction, is wholly owned by such a member.

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- 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**

In December 2016, a Master Trust structure was put in place which became effective on the 2 February 2017, replacing the existing securitisation facility. This provides access to the same sources of funding as the previous securitisation facility, plus funding for an excess concentration series and allows access to public Asset-backed security (ABS) funding.

In June 2017, an initial public issuance was launched via a new Special Purpose Vehicle, PCL Funding II, a 3 year £300 million revolving period facility, consisting of "A", "B" and "C" Notes, rated by Moody's and DBRS, and unrated "D" Notes, with a re investment period end date of 15 June 2020.

In November 2017, a second public issuance was launched via a new SPV, PCL Funding III, a 3.6 year £300 million revolving period facility, consisting of "A", "B" and "C" Notes, rated by Moody's and DBRS, and unrated "D" Notes, with a re investment period end date of 15 June 2021.

These changes have diversified the business's funding base and further reduced its liquidity risk.

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

#### **(c) Basis of consolidation**

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

#### **Investment in Group undertakings**

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

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

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

#### **Special purpose vehicles**

The Group enters into securitisation transactions in which it assigns receivables to an 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 2017, there were £999.9 million notes in issue relating to securitisation transactions (2016: £988.9 million).

#### **(d) Net interest income recognition**

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

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

#### **(e) Fee and commission income recognition**

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

#### **(f) Taxation**

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

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

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

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

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

#### **(g) Foreign currency translation**

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

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

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

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

#### **(h) Cash and cash equivalents**

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

#### **(i) Financial instruments**

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

#### **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 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.

#### **Financial assets**

The Group classifies its financial assets in the following categories: at fair value through profit or loss (FVTPL), loans and receivables and available-for-sale (AFS). Management determines the classification of its financial instruments at initial recognition. Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets held at FVTPL are recognised at fair value with any gains or losses included in the consolidated income statement in the period in which they arise. Transaction costs are expensed at the time of initial recognition. Derivative financial assets are classified as held for trading unless they are accounted for as an effective hedging instrument but are not separately categorised in the statement of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost using the effective interest method, less any impairment.



**(j) Derecognition of financial assets and liabilities**

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred and the transfer qualifies for derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished. In line with IAS 39, an exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Qualitative and quantitative factors are considered in determination of substantially different terms.

Collateral furnished by the Group under securitisation is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, therefore the criteria for derecognition are not met.

**(k) Offsetting of financial instruments**

Financial assets and liabilities are off set 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 financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

**Financial assets carried at amortised cost**

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument(s) at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making the collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of currently observable data, to reflect the effects of current conditions that did not affect the historical period.

Impairment losses are recognised in the consolidated income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent year the amount of the impairment loss is decreased and the reduction can be related objectively to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

When a loan is deemed uncollectible it is written off against the related provision for loan impairment after all of the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off received from customers or other third parties are recognised directly in the consolidated income statement as a reduction in the loan impairment charge for the period.

**Financial assets classified as available for sale**

In the case of investment securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the income statement on investment securities are not reversed through the consolidated income statement.

**(m) Derivative financial instruments and hedge accounting**

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are initially recognised at fair value on the contract date and are remeasured at their fair value at subsequent reporting dates.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

**Derivatives not in hedge accounting relationships**

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated income statement as they arise.

**(n) Impairment of non-financial assets**

Non-financial assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. In the event that 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 with the exception of goodwill.

**(o) 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 the item will flow to the Group. All other repairs and maintenance costs are charged to the consolidated income statement in the period in which they are incurred.

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

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Estimated useful lives for property, plant and equipment are:

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

The assets' residual values and useful lives 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 terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property acquired by way of 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 of 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.

#### **Intangible assets**

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

#### **Assets under construction (Internally generated intangible assets)**

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

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

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

The following costs are not capitalised: Operations, 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/Work in progress are brought into use, the assets are transferred to the appropriate classification within intangible assets. The estimated useful lives are as follows:

Capitalised development costs/software	3 to 5 years
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### **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.

### **(p) Employee benefits**

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

### **(q) Business combinations involving entities under common control**

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

### **(r) 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.

### **(s) Share capital**

Ordinary shares and preference shares are classified as equity.

### **(t) Dividends**

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

**(u) Segmental reporting**

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

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

**(v) Standards, amendments and interpretations, which became effective in the current year and are relevant to the group**

During the year ended 31 December 2017 the following accounting standards and amendments to standards have become effective for application by EU and have been applied for the first time for the annual reporting period commencing 1 January 2017:

- *Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (Effective for annual periods beginning on or after 1 January 2017).*

These amendments clarify certain aspects of deductible temporary differences with regards to Group's financial assets and other changes in relation to taxable profits.

- *Amendments to IAS 7 Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financial activities; however, an entity may fulfil the disclosure objectives by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities in the statement of financial position.

**(w) Standards and interpretations issued but not yet effective for the year ended December 2017**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 (but allow early application) reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below:

- *IFRS 9, 'Financial instruments'*

IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018.

The principal requirements of IFRS 9 are as follows:

***Classification and measurement***

Financial assets will be classified as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. The application of the classification and measurement requirements is not expected to materially impact the financial statements. The accounting for financial liabilities is largely unchanged.

### *Impairment*

IFRS 9 changes the basis of recognition of impairment on financial assets from an incurred loss to an expected credit loss (ECL) approach for amortised cost and FVOCI financial assets. This will result in impairment provisions which are recognised earlier as it is no longer necessary for a loss event to be incurred before a provision is recognised.

At initial recognition, a provision is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in the credit risk, provision is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be Stage 1; financial assets, which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets, which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in Stage 3.

### *Hedge accounting*

The hedge accounting requirements of IFRS 9 are designed to create a stronger link with financial risk management. A separate financial reporting standard will be developed on accounting for dynamic risk management (macro hedge accounting) and IFRS 9 allows the option to continue to apply the existing hedge accounting requirements of IAS 39 until this is implemented. Therefore, no changes are currently being implemented to hedge accounting policies and methodologies.

The Group has assessed the impact of adopting IFRS 9 and it is not expected to have a material impact on the financial statements.

- *IFRS 15 – Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018)*

IFRS 15 will replace IAS 18 Revenue and IAS 11 Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised.

The Group has assessed the impact of adopting IFRS 15 and it is not expected to have a material impact on the financial statements.

- *IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16).*

In January 2016, the IASB issued IFRS 16 to replace IAS 17 Leases. Under IFRS 16, accounting for finance leases will remain substantially the same. Operating leases will be brought on-balance sheet through the recognition of assets representing the contractual rights of use and liabilities will be recognised for the contractual payments. This may impact the timing of the recognition of expenses on leased assets.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any re measurement of the lease liability. Lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications. In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged.



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The Group is currently assessing the impact of this standard.

- *Amendments to IFRS 2 Classification and Measurement of Share – Based payment Transactions (Effective for annual periods beginning on or after 1 January 2018).*

These amendments clarify the following:

- In estimating the fair value of cash settled SBP, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as equity – settled SBP.
- Modifications in relations to tax liability
- A modification of a SBP that changes the transaction from cash settled to equity settled.

The Group is currently assessing the impact of this amendment.

- *IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018).*

This interpretation sets out requirements regarding which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The Group is currently assessing the impact of this interpretation.

The Group is currently assessing the impact of this interpretation.

- *Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2019)*

When an entity which is a party to a joint arrangement in a business that is a joint operation (as defined in IFRS 11 Joint Arrangements) subsequently obtains control of that joint arrangement, the acquirer must remeasure its previously held interest at the acquisition-date fair value. Such a transaction would be considered as a business combination achieved in stages and accounted for on that basis.

The Group is currently assessing the impact of this amendment.

- *Amendments to IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2019)*

The amendment to IFRS 11 deals with a related (but different) transaction to that dealt with by the above amendment to IFRS 3. It addresses situations in which an entity is a party to a joint arrangement that is a joint operation (as defined in IFRS 11 Joint Arrangements) but, importantly, does not have joint control of the joint operation and subsequently obtains joint control, it must not remeasure its previously held interest.

The Group is currently assessing the impact of this amendment.

- *Amendments to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2019)*

The amendment clarifies that in computing the capitalisation rate for funds borrowed generally, an entity should exclude borrowing costs applicable to borrowings made specifically for obtaining a qualifying asset, only until the asset is ready for its intended use or sale. Borrowing costs related to specific borrowings that remain outstanding after the related qualifying asset is ready for intended use or for sale would subsequently be considered as part of the general borrowing costs of the entity.

The Group is currently assessing the impact of this amendment.



**(x) Early adoption of new standards**

The Group did not early adopt any new or amended standards in the year ended 31 December 2017.

**3. Critical accounting estimates and judgments in applying accounting policies**

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

**(a) Loan impairment provisions**

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of customer loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The Group's loan impairment provisions are established on a portfolio basis taking into account the level of arrears, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates. These portfolios include receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviours and bankruptcy trends.

**(b) Effective interest rate**

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

**(c) Development costs**

The Group has capitalised internally generated intangible assets as required in accordance with IAS 38. Management has assessed expected contribution to be generated from these assets and deemed an impairment adjustment of £nil (2016: £0.9 million) is required to the carrying value of the assets. Management consider it probable that software development activities in the course of construction will result in a deployable system. The recoverable amount of the assets has been determined based on value in use calculations which require the use of estimates and judgements.

**(d) Impairment of assets**

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

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

**(e) Impairment of investment in subsidiaries**

The Company classifies the investment in its subsidiaries as available for sale. Where there is objective evidence of a significant or prolonged decline in the fair value of the subsidiary below its cost, the Company would recognise an impairment loss.

The valuation of the Company's subsidiaries is primarily driven by the trading performance of Premium Credit Limited, an entity engaged in the financing of instalment premium services. Premium Credit Limited is an unlisted entity and its fair value is determined using a present value model. The most significant factors determining the financial performance of Premium Credit Limited and the cash flows it is able to generate include the economic environment, notably interest rates, unemployment levels, payment behaviours and bankruptcy trends. These factors all have a bearing on the future credit quality of the loans and advances made by the subsidiary and could cause actual credit losses to differ materially from reported loan impairment.

**(f) 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 29 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.

**(g) Other provisions**

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

#### 4. Segmental reporting

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

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

#### 5. Net interest income

	2017 £'000	2016 £'000
Interest income on loans and advances to customers	119,133	120,098
<b>Interest income</b>	<b>119,133</b>	<b>120,098</b>
Interest payable on:		
Securitisation notes	(17,753)	(17,714)
Derivative financial instruments	286	(2,689)
<b>Interest expense</b>	<b>(17,467)</b>	<b>(20,403)</b>
<b>Net interest income</b>	<b>101,666</b>	<b>99,695</b>

#### 6. Fee and commission income

	2017 £'000	2016 £'000
Servicing and administration fees	16,188	18,725
<b>Fee and commission income</b>	<b>16,188</b>	<b>18,725</b>

#### 7. Fee and commission expense

	2017 £'000	2016 £'000
Fees and commission expense	3,787	6,070
<b>Fee and commission expense</b>	<b>3,787</b>	<b>6,070</b>

The costs associated with Servicing and administration fees income are primarily included in administrative expenses. See note 9 on page 72 for an analysis of the Group's administrative expenses.

#### 8. Gain on derivative financial instruments

	2017 £'000	2016 £'000
Net gain arising on derivatives not designated as hedging instruments under IAS39	-	1,472
<b>Gain on derivative financial instruments</b>	<b>-</b>	<b>1,472</b>

**9. Administrative expenses**

	2017 £'000	2016 £'000
<b>Staff costs:</b>		
Wages and salaries	22,021	22,177
Social security costs	2,704	2,697
Other pension costs	1,256	1,164
<b>Total staff costs</b>	<b>25,981</b>	<b>26,038</b>
<b>Non-staff costs:</b>		
Other administration costs	18,862	17,576
IT related expenditure	10,953	3,256
Depreciation and amortisation	6,142	3,431
Impairment of loans and advances to customers	5,580	6,658
Operating lease costs	922	500
Loss on disposal of fixed assets	40	14
Gains from foreign exchange	(2,563)	(6,232)
Impairment of intangible fixed assets	-	877
<b>Total non-staff costs</b>	<b>39,936</b>	<b>26,080</b>
<b>Administrative expenses</b>	<b>65,917</b>	<b>52,118</b>

**Impairments of loans and advances to customers**

	2017 £'000	2016 £'000
(Decrease)/Increase in impairment allowance, net of recoveries	(1,370)	1,747
Amounts written off during the year as uncollectible	6,950	4,911
<b>Impairment of loans and advances to customers</b>	<b>5,580</b>	<b>6,658</b>

The Group has a single Cash Generating Unit ("CGU") at 31 December 2017, being Premium Credit Limited. In order to determine whether impairments are required, the Group estimates the recoverable amount of the CGU. The calculation is based on a discount factor being applied to projected future cash flows to obtain a 'value in use' which is the recoverable amount.

**Total auditors' remuneration**

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

	2017 £'000	2016 £'000
<b>Auditors remuneration</b>		
Audit Services	250	234
Audit related services	25	-
Other	22	71
<b>Total auditor remuneration</b>	<b>297</b>	<b>305</b>

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:

	2017 Number	2016 Number
Operations	172	177
General and administration	168	160
Sales and marketing	77	71
<b>Total number of employees</b>	<b>417</b>	<b>408</b>

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

### 10. Directors' emoluments

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

	2017 £'000	2016 £'000
Aggregate emoluments	1,595	1,774
<b>Total emoluments</b>	<b>1,595</b>	<b>1,774</b>

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

The total emoluments of the highest paid Director were £0.7 million (2016: £0.7 million). No contributions were made in respect of money purchase schemes to the highest paid director (2016: £Nil).

The remuneration of key management personnel is shown in note 31(b).

### 11. Finance income

	2017 £'000	2016 £'000
Interest income from Group undertakings	7	12
<b>Finance income</b>	<b>7</b>	<b>12</b>

### 12. Finance expense

	2017 £'000	2016 £'000
Interest payable on:		
Senior loan notes	14,654	14,654
<b>Finance expense</b>	<b>14,654</b>	<b>14,654</b>

**13. Income tax expense**

	2017 £'000	2016 £'000
Current tax expense - current year	2,386	3,451
Adjustment to prior years – current tax	1,038	(111)
<b>Total current tax</b>	<b>3,424</b>	<b>3,340</b>
Deferred tax credit - current year	(276)	(53)
Adjustment to prior years – deferred tax	511	5
<b>Total deferred tax</b>	<b>235</b>	<b>(48)</b>
Foreign tax	762	-
<b>Total foreign tax</b>	<b>762</b>	<b>-</b>
<b>Total tax expense</b>	<b>4,421</b>	<b>3,292</b>

The standard rate of corporation tax in the United Kingdom reduced to 20% on 1 April 2015 and, through the enactment of the Finance (No. 2) Act 2015 on 18 November 2015, this has further reduced to 19% from 1 April 2017. Further, the Finance Act 2016, which was enacted on 15 September 2016, reduces the standard rate of corporation tax to 17% from 1 April 2020. The company's profits for this accounting period are taxed at the applicable rate of 19.25% (2016: 20%).

The tax assessed for the year is lower (2016: lower) than the rate of UK Corporation Tax in the UK of 19.25% (2016: 20%). The difference is explained below:

	2017 £'000	2016 £'000
<b>Profit before taxation on ordinary activities</b>	<b>33,503</b>	<b>47,062</b>
Profit before taxation on ordinary activities multiplied by the UK tax rate of 19.25% (2016: 20%)	<b>6,449</b>	<b>9,412</b>
<b>Factors affecting expense for the year:</b>		
Tax exempt income	(88)	-
Expenses not deductible for tax purposes	209	(198)
Overseas tax	761	631
Double tax relief	(666)	(983)
Adjustment to prior years – current tax	1,038	(111)
Adjustment to prior years – deferred tax	511	5
Effects of group relief from Pomegranate group	(3,827)	(5,420)
Effects of rate change	33	37
Other tax adjustments	1	(81)
<b>Total tax expense</b>	<b>4,421</b>	<b>3,292</b>

**14. Intangible assets**

	Assets under construction £'000	Software £'000	Total £'000
<b>Cost</b>			
<b>At 1 January 2016</b>	<b>3,830</b>	<b>2,529</b>	<b>6,359</b>
Additions	7,232	-	7,232
Transfers	(4,951)	4,951	-
Disposal	-	(1,164)	(1,164)
<b>At 31 December 2016</b>	<b>6,111</b>	<b>6,316</b>	<b>12,427</b>
<b>Accumulated amortisation</b>			
<b>At 1 January 2016</b>	-	<b>1,288</b>	<b>1,288</b>
Charge for the year	-	1,592	1,592
Impairment	-	877	877
Disposal	-	(1,164)	(1,164)
<b>At 31 December 2016</b>	-	<b>2,593</b>	<b>2,593</b>
<b>Net book value at 31 December 2016</b>	<b>6,111</b>	<b>3,723</b>	<b>9,834</b>
<b>Cost</b>			
<b>At 1 January 2017</b>	<b>6,111</b>	<b>6,316</b>	<b>12,427</b>
Additions	1,461	3,403	4,864
Transfers	(6,091)	8,698	2,607
Disposal	-	(1,359)	(1,359)
<b>At 31 December 2017</b>	<b>1,481</b>	<b>17,058</b>	<b>18,539</b>
<b>Accumulated amortisation</b>			
<b>At 1 January 2017</b>	-	<b>2,593</b>	<b>2,593</b>
Charge for the year	-	3,909	3,909
Transfers	-	1,735	1,735
Disposal	-	(1,359)	(1,359)
<b>At 31 December 2017</b>	-	<b>6,878</b>	<b>6,878</b>
<b>Net book value at 31 December 2017</b>	<b>1,481</b>	<b>10,180</b>	<b>11,661</b>

Management has assessed the expected contribution to be generated from the software assets and deemed an impairment adjustment of £Nil (2016: £0.9 million) is required to the carrying value of the assets.



**15. Property, plant and equipment**

	Leasehold improvements £'000	Leasehold offices £'000	Vehicles and equipment £'000	Total £'000
<b>Cost</b>				
<b>At 1 January 2016</b>	<b>1,830</b>	<b>4,100</b>	<b>11,242</b>	<b>17,172</b>
Additions	2,726	-	1,886	4,612
Disposals	(1,830)	(4,100)	(217)	(6,147)
<b>At 31 December 2016</b>	<b>2,726</b>	<b>-</b>	<b>12,911</b>	<b>15,637</b>
<b>Accumulated depreciation</b>				
<b>At 1 January 2016</b>	<b>1,830</b>	<b>3,966</b>	<b>7,947</b>	<b>13,743</b>
Charge for the year	9	134	1,696	1,839
Disposals	(1,830)	(4,100)	(203)	(6,133)
<b>At 31 December 2016</b>	<b>9</b>	<b>-</b>	<b>9,440</b>	<b>9,449</b>
<b>Net carrying value at 31 December 2016</b>	<b>2,717</b>	<b>-</b>	<b>3,471</b>	<b>6,188</b>
<b>Cost</b>				
<b>At 1 January 2017</b>	<b>2,726</b>	<b>-</b>	<b>12,911</b>	<b>15,637</b>
Additions	146	-	1,312	1,458
Transfers	-	-	(2,607)	(2,607)
Disposals	-	-	(6,678)	(6,678)
<b>At 31 December 2017</b>	<b>2,872</b>	<b>-</b>	<b>4,938</b>	<b>7,810</b>
<b>Accumulated depreciation</b>				
<b>At 1 January 2017</b>	<b>9</b>	<b>-</b>	<b>9,440</b>	<b>9,449</b>
Charge for the year	270	-	1,963	2,233
Transfers	-	-	(1,735)	(1,735)
Disposals	-	-	(6,604)	(6,604)
<b>At 31 December 2017</b>	<b>279</b>	<b>-</b>	<b>3,064</b>	<b>3,343</b>
<b>Net carrying value at 31 December 2017</b>	<b>2,593</b>	<b>-</b>	<b>1,874</b>	<b>4,467</b>

**16. Loans and advances to customers**

	31 Dec 2017 £'000	31 Dec 2016 £'000
Gross loans and advances to customers	1,425,177	1,505,996
Less: allowance for impairment	(4,481)	(5,837)
<b>Net loans and advances to customers</b>	<b>1,420,696</b>	<b>1,500,159</b>
<b>Split as:</b>		
Current	1,417,609	1,496,840
Non-current	3,087	3,319

At 31 December 2017, £1,045.0 million (2016: £1,127.0 million) of the loan and advances to customers had its beneficial interest assigned to SPV entities as a collateral for securitisation transactions.

The following table shows impairment provisions for loans and advances:

	2017 £'000	2016 £'000
At 1 January	5,837	3,840
Foreign exchange impact	14	35
Reclassification of provision	-	215
(Decrease)/increase in allowance, net of recoveries, charged to income statement (see note 9)	(1,370)	1,747
<b>At 31 December</b>	<b>4,481</b>	<b>5,837</b>

### 17. Prepayments and other receivables

	Group 31 Dec 2017 £'000	Group 31 Dec 2016 £'000	Company 31 Dec 2017 £'000	Company 31 Dec 2016 £'000
Prepayments	10,837	8,819	23	10
Amounts owed by Group undertakings	321	129	13,871	13,000
Other receivables	-	973	-	-
<b>Prepayment and other receivables</b>	<b>11,158</b>	<b>9,921</b>	<b>13,894</b>	<b>13,010</b>

#### Split as:

Current	7,860	5,895	23	10
Non-current	3,298	4,026	13,871	13,000

Prepayments and other receivables of £11.2 million (2016: £10.0 million) include £3.8 million (2016: £4.9 million) of fees relating to the Master Trust which are amortised over 5 years and £0.4 million of fees relating to undrawn facilities.

The Group has amounts owed by Group undertakings of £0.3 million (2016: £0.1 million) which is attributable to expenses recharged to Pomegranate Acquisitions Limited, Pomegranate Holdings Limited and Pomegranate Topco Limited which is unsecured and repayable on demand.

Company prepayments and other receivables of £13.9 million (2016: £13.0 million) consist of amounts owed by Group undertakings. The Company has a loan receivable from its subsidiary Mizzen Midco Limited of £13.9 million (2016: £13.0 million) which accrues interest at 8.135% and is repayable 30 October 2022.

## 18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

	Assets 2016 £'000	Liabilities 2016 £'000	Net 2016 £'000
<b>Deferred tax asset as at 1 January</b>	<b>423</b>	<b>-</b>	<b>423</b>
<b>Deferred tax charge/(credit) for the year attributable to:</b>			
Deferred tax charge/(credit) in respect of current year	90	-	90
Adjustments in respect of prior year	(5)	-	(5)
Effect of rate change	(37)	-	(37)
<b>Deferred tax asset as at 31 December</b>	<b>471</b>	<b>-</b>	<b>471</b>

At the end of the year the Group had tax losses available to carry forward for offset against future profits of £1.9 million (2016: £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.

## 19. Cash and cash equivalents

	31 Dec 2017 £'000	31 Dec 2016 £'000
Bank balances	102,097	51,013
<b>Cash and cash equivalents</b>	<b>102,097</b>	<b>51,013</b>

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

	31 Dec 2017 £'000	31 Dec 2016 £'000
GBP	87,620	44,235
USD	2,246	1,660
EUR	12,231	5,118
<b>Cash and cash equivalents</b>	<b>102,097</b>	<b>51,013</b>

Cash and cash equivalents include encumbered cash balances held by SPV entities (see note 28).

The external credit rating of our banking counter parties are:

	31 Dec 2017 £'000	31 Dec 2016 £'000
AA-	101,344	48,639
A+	753	775
BBB+	-	57
BBB	-	1,542
<b>Cash and cash equivalents</b>	<b>102,097</b>	<b>51,013</b>

The movement of balances held in BBB banking counter parties to BBB banking counter parties represents an upgrade in the rating of the bank.

## 20. Borrowings

	31 Dec 2017 £'000	31 Dec 2016 £'000
<b>Non-current</b>		
Securitisation notes	999,687	988,856
Senior secured loan notes	184,630	183,235
<b>Borrowings</b>	<b>1,184,317</b>	<b>1,172,091</b>

### Securitisation notes

Funding is provided by a £1,109.5 million securitisation facility and includes VFN notes and two public issuances launched during the year. As at 31 December 2017, £1,005.2 million was drawn down on the securitisation facility (2016: £990.4 million) less loan fees of £5.5 million (2016: £1.5 million).

Senior secured loan notes	Issue date	Maturity date	31 Dec 2017 £'000	31 Dec 2016 £'000
Fixed rate corporate bond	8 May 2014	1 May 2021	184,630	183,235

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 (2016: £189.4 million) less loans fees of £4.8 million (2016: £6.2 million).

**21. Trade and other payables**

	Group 31 Dec 2017 £'000	Group 31 Dec 2016 £'000	Company 31 Dec 2017 £'000	Company 31 Dec 2016 £'000
Trade payables	408,047	411,912		
Accrued expenses	16,664	20,836	-	-
Social security and other taxes	939	737	-	-
Corporation Income tax	-	426	-	-
Amounts owed to Group undertakings	1,097	10,908	382	9,782
Other creditors	172	240		-
<b>Trade and other payables</b>	<b>426,919</b>	<b>445,059</b>	<b>382</b>	<b>9,782</b>

**Split as:**

Current	426,919	435,500	382	223
Non-current	-	9,559	-	9,559

During the year the Group and Company paid off £9.6 million of the interest free loan from its immediate parent undertaking, Pomegranate Acquisitions Limited (2016: £9.6 million). The Group has amounts owed to Pomegranate Acquisitions Limited of £1.1 million (2016: £1.3 million) attributable to recharged expenses. The Company also has amounts owed to Premium Credit Limited of £0.4 million (2016: £0.2 million) attributable to recharged expenses. These balances are unsecured and are repayable on demand

**22. Called up share capital**

	Group 31 Dec 2017 £'000	Group 31 Dec 2016 £'000	Company 31 Dec 2017 £'000	Company 31 Dec 2016 £'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
<b>Trade and other payables</b>	<b>44,502</b>	<b>44,502</b>	<b>44,502</b>	<b>44,502</b>

**23. Other reserves**

	31 Dec 2017 £'000	31 Dec 2016 £'000
Opening foreign currency translation reserve	1,405	(682)
Foreign currency translation	730	2,087
<b>Other reserves</b>	<b>2,135</b>	<b>1,405</b>

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

## 24. Investment in Group undertakings

Investments – Company	31 Dec 2017 £'000	31 Dec 2016 £'000
<b>Cost and carrying value</b>		
At 1 January	44,502	44,502
Additions	-	-
<b>At 31 December</b>	<b>44,502</b>	<b>44,502</b>

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, Uglund 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 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.

## 25. Dividends

	2017	2016
	£'000	£'000
<b>On Ordinary shares</b>		
Dividend paid £1.506 per £1 share:(2016: £0.942 per £1 share)	49,591	31,000
<b>Dividends paid</b>	<b>49,591</b>	<b>31,000</b>

On 21 December 2017, a dividend of £1.506 per share was declared and paid. No further dividend has been proposed.

## 26. Cash generated from operations

	2017	2016
	£'000	£'000
<b>Profit before taxation</b>	<b>33,503</b>	<b>47,062</b>
<b>Non-cash items included in profit before taxation</b>		
Loan impairment charges	5,580	6,658
Depreciation and amortisation	6,142	3,431
Impairment of intangible assets	-	877
Loss on disposal of fixed assets	40	14
Finance costs – net	32,121	35,057
Fair value movements – swap	-	(1,472)
<b>Non-cash items included in profit before taxation</b>	<b>43,883</b>	<b>44,565</b>
<b>Changes in operating assets and liabilities</b>		
Net movement in loans and advances to customers	74,482	(55,813)
Net movement in trade and other payables	(8,330)	10,344
Net movement in prepayments and other receivables	(722)	(1,120)
<b>Changes in operating assets and liabilities</b>	<b>65,430</b>	<b>(46,589)</b>
<b>Cash generated from operations</b>	<b>142,816</b>	<b>45,038</b>

## 27. Interests in structured entities

The Group has five financing arrangements which involve structured entities. The business is funded by a Master Trust securitisation, which was put in place in December 2016 and became effective in February 2017. The structures issued three series of debt instruments external to the group, backed by the cash flows of the portfolio. As at 31 December 2017, the Master Trust has issued two series of publicly listed term debt sold to capital market investors and a senior variable funding note sold to a syndicate of the six major banks. These entities are consolidated as they were specifically set up for the purposes of the Group, and the Group has exposure to substantially all risks and rewards through outstanding guarantees of the entity's obligations.

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



## 28. Financial risk management

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

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

### (a) Credit risk

Credit risk arises from loan facilities in the UK and to a lesser extent in the Republic of Ireland. These facilities enable individuals to spread the cost of instalment 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 Credit & Counterparty Committee, a sub-Committee of the Executive Committee. Credit checks are conducted at inception and on renewal of loan facilities. Individual risk limits are set based on borrower affordability and in accordance with limits and parameters set by the Board

#### Credit quality

Loans and advances to customers represent 91.5% of Total Assets at 31 December 2017 (2016: 95.0%).

The following table shows the ageing of net loans and advances to customers:

	31 Dec 2017 £'000	31 Dec 2016 £'000
<b>Loans neither past due or impaired:</b>		
Within one month	304,476	247,258
Between one to three months	443,834	468,085
Between three months and one year	657,607	769,800
Over one year	3,087	3,319
<b>Total loans neither past due or impaired:</b>	<b>1,409,004</b>	<b>1,488,462</b>
Past due loans not impaired	11,692	11,697
<b>Net loans and advances to customers</b>	<b>1,420,696</b>	<b>1,500,159</b>

#### (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 £10.1 million (2016: £9.9 million), however this would be largely offset by increased revenue from repricing of future lending via contractual rate ratchets.

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amounts of committed credit facilities to enable the Group to meet obligations when due. At the end of the reporting period the Group held deposits at call of £102.1 million (2016: £51.0 million). Due to the nature of the business, the cash position is monitored daily by Group Treasury 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.

<b>Encumbered asset summary</b>	31 Dec 2017 £'000	31 Dec 2016 £'000
Encumbered cash and cash equivalents	73,398	21,154
Unencumbered cash and cash equivalents	28,699	29,859
<b>Cash and cash equivalents</b>	<b>102,097</b>	<b>51,013</b>

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 sub-Committee ('ALCO') of the Executive Committee.

### Financing arrangements

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

Variable rate	31 Dec 2017 £'000	31 Dec 2016 £'000
Expiring after more than one year (revolving credit facility)	-	15,000
Expiring after more than one year (securitisation)	104,291	259,569
<b>Undrawn borrowing facilities</b>	<b>104,291</b>	<b>274,569</b>

The securitisation facility may be drawn down on demand and is subject to the continuance of satisfactory credit ratings of the securitisation vehicle.

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 Asset and Liability Committee.

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

At 31 December 2016	Repayable on demand £'000	<1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
<b>Financial liabilities</b>						
Borrowings	-	-	-	1,274,423	-	1,274,423
Trade and other payables	10,908	433,725	-	-	-	444,633
<b>Total financial liabilities</b>	<b>10,908</b>	<b>433,725</b>	<b>-</b>	<b>1,274,423</b>	<b>-</b>	<b>1,719,056</b>
<b>Financial assets</b>						
Loans and advances to customers	-	1,496,840	3,319	-	-	1,500,159
Other receivables	129	973	-	-	-	1,102
Cash and cash equivalents	29,859	21,154	-	-	-	51,013
<b>Total financial assets</b>	<b>29,988</b>	<b>1,518,967</b>	<b>3,319</b>	<b>-</b>	<b>-</b>	<b>1,552,274</b>
<b>Maturity gap</b>	<b>19,080</b>	<b>1,085,242</b>	<b>3,319</b>	<b>(1,274,423)</b>	<b>-</b>	<b>(166,782)</b>

#### 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 treasury policies. Exposures are managed by concentration limits on trade receivables and payables denominated in foreign currencies.

As at 31 December 2017, a 2% movement in the US dollar/ GBP and EUR/ GBP exchange rates would have had a of £0.7 million (2016: £0.6 million) impact on profits.

## 29. Financial instruments

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

### (a) Classification of financial instruments by IAS39 category

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

At 31 December 2016	Designated at fair value through profit and loss £'000	Loans and receivables £'000	Other financial instruments at amortised cost £'000	Total £'000
<b>Liabilities</b>				
Borrowings	-	-	1,172,091	1,172,091
Trade and other payables	-	-	444,633	444,633
<b>Total financial liabilities</b>	-	-	<b>1,616,724</b>	<b>1,616,724</b>
<b>Assets</b>				
Loans and advances to customers	-	1,500,159	-	1,500,159
Other receivables	-	1,102	-	1,102
Cash and cash equivalents	-	51,013	-	51,013
<b>Total financial assets</b>	-	<b>1,552,274</b>	-	<b>1,552,274</b>

All derivative financial instruments are held for economic hedging purposes. No derivatives are designated as hedging instruments under the terms of IAS39.

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

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).

**30. 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;



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- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for its stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

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

The debt and equity amounts for the Group at 31 December 2017 and 31 December 2016 were as follows:

	Notes	31 Dec 2017 £'000	31 Dec 2016 £'000
<b>Debt</b>			
Securitisation notes	20	999,687	988,856
Senior loan notes	20	184,630	183,235
Amounts owed to Group undertakings	21	1,097	10,908
Less: unencumbered cash	28	(28,699)	(29,859)
<b>Net debt</b>		<b>1,156,715</b>	<b>1,153,140</b>
<b>Equity</b>			
Total equity		(59,343)	(39,564)

The Group uses a number of non-GAAP debt ratios which can be seen on page 94.

### 31. Related party transactions

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

#### (a) Transactions involving Directors and other key connected persons

For the purposes of IAS 24 "Related Party Disclosures", key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of an entity; the key management of the Group are the members of the Group's Board and Executive Committee. There were no loans or advances to key connected persons in the Group's primary financial statements (2016: £Nil).

#### (b) Remuneration of key management personnel

The amount of remuneration incurred by the Group in relation to key management is set out below in aggregate. The remuneration of the Directors is set out in note 10. With the exception of the Chief Executive, the Group 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.



	2017 £'000	2016 £'000
Short-term employee benefits	3,257	3,937
Termination benefits	527	-
<b>Total emoluments</b>	<b>3,784</b>	<b>3,937</b>

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

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

#### (c) Trading transactions

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

	Interest paid 2017 £'000	Interest paid 2016 £'000	Service fees 2017 £'000	Service fees 2016 £'000	Travel expenses 2017 £'000	Travel expenses 2016 £'000
Cinven	-	-	360	360	6	5

Amounts owed to and from Group undertakings are identified in notes 17 and 21.

#### (d) Ultimate parent undertaking and controlling party

At 31 December 2017, 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.

#### (e) Immediate parent undertaking

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

### 32. Contingent liabilities and commitments

#### a) Capital commitments

At 31 December 2017, the Group had capital commitments related to intangible assets of £1.0 million (31 December 2016: £Nil). This is in respect of IT software development and IT hardware.

**b) Operating lease commitments**

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

	Land & Buildings		Other	
	31 Dec 2017 £'000	31 Dec 2016 £'000	31 Dec 2017 £'000	31 Dec 2016 £'000
No later than one year	584	11	145	173
Later than one year and no later than five years	3,813	3,305	146	65
Over five years	3,627	4,594	-	-
<b>Operating lease commitments</b>	<b>8,024</b>	<b>7,910</b>	<b>291</b>	<b>238</b>

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

**33. Post balance sheet events**

There were no post balance sheet events.

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Information which may be helpful to shareholders and other users.

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## D1: Corporate Information

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Nayan Kisnadwala

**Company Secretary**

Charleen Cutler

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London EC4Y 1HT

**Bankers**

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Canary Wharf  
London E14 5HQ

**Independent Auditors**

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Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London SE1 2RT

## D2: Non GAAP debt ratios

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

	2017 £'000	2016 £'000
Adjusted Post-Securitisation EBITDA <sup>1</sup>	71,658	68,717
Cash interest expense (excluding securitisation) <sup>2</sup>	13,258	13,258
Gross debt	189,400	189,400
Cash and cash equivalents <sup>3</sup>	(28,699)	(29,859)
<b>Net debt</b>	<b>160,701</b>	<b>159,541</b>
Ratio of gross debt to Adjusted Post-Securitisation EBITDA	2.6X	2.8X
Ratio of net debt to Adjusted Post-Securitisation EBITDA	2.2X	2.3X
Ratio of adjusted Post-Securitisation EBITDA to cash interest expense (excluding securitisation)	5.4X	5.2X

1. The calculation and full definition of Adjusted Post-Securitisation EBITDA is in section A7.3 on page 22.
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 is unencumbered cash of £28.7 million (2016: £29.9 million) as per note 28 (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.