

## Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance. The Company's principal risks are:

Type of Risk	Definition	Mitigation
<b>CONDUCT RISK</b>	<p>The risk of poor outcomes for customers, for example by:</p> <ul style="list-style-type: none"> <li>• Offering inappropriate products.</li> <li>• Failing to assess affordability.</li> <li>• Failing to identify vulnerable customers.</li> <li>• Failing to show forbearance if customers struggle with their repayments.</li> </ul>	<p>Treating Customers Fairly is a fundamental part of the Company's culture.</p> <p>Comprehensive and verifiable training and oversight of agents and staff is undertaken.</p> <p>First and second-line quality assurance operates alongside an automated, mobile technology-based sales &amp; collections process.</p>
<b>REGULATORY RISK</b>	<p>The risk of legal or regulatory action resulting in fines, penalties, censure or other sanction or legal action arising from failure to identify or meet regulatory and legislative requirements. This also includes the risk that new regulation(s) or changes to the interpretation or implementation of existing regulation(s) may affect the Group's operations and cost base.</p>	<p>A gap analysis is undertaken when any rules change.</p> <p>Governance, risk and compliance are independently and externally reviewed.</p> <p>We maintain continuous communication with key external stakeholders and professional contacts to keep our information updated.</p>
<b>CREDIT RISK</b>	<p>The risk of default on a debt may arise from a borrower failing to make the necessary payments. The primary risk lies with the lender and includes lost principal and interest, disruption to cash flow, and increased collection costs.</p>	<p>Group policy prescribes business oversight and control.</p> <p>Weekly management information allows the Group to monitor the effects of lending decisions.</p> <p>Regular reviews of policies and outcomes are undertaken by the Credit Risk Committee.</p>
<b>REPUTATIONAL RISK</b>	<p>The risk of a loss due to damage to, or a decline in, the Group's reputation, for example through poor customer outcomes resulting in a high level of complaints.</p>	<p>Effective corporate governance provides business oversight and control.</p> <p>We undertake independent monitoring, for example market surveys and mystery shopping.</p> <p>The number and nature of complaints are closely monitored.</p>
<b>STRATEGIC AND BUSINESS RISK</b>	<p>The risk arising from poor business decisions, substandard execution of decisions, inadequate resource allocation, and/or from failure to adapt sufficiently to changes in the business environment.</p> <p>Examples could include:</p> <ul style="list-style-type: none"> <li>• Acquisitions stretching resources beyond capability.</li> <li>• Failure to maintain the Company's competitiveness in its markets.</li> <li>• Inadequate corporate governance.</li> </ul>	<p>The recruitment process for additional staff is highly automated and efficient.</p> <p>Detailed strategic planning and oversight are implemented alongside horizon scanning.</p> <p>A full committee-based corporate governance structure operates with Board oversight.</p> <p>The Board and Executive Team hold an annual two-day strategy planning meeting.</p> <p>We are involved in lobbying through our trade associations.</p>

Type of Risk	Definition	Mitigation
<b>OPERATIONAL RISK</b>	The risk of loss arising from inadequate or failed procedures, systems or policies, employee errors, system failure, fraud, other criminal activity – indeed any event that disrupts business processes.	All agents and staff participate annually in a personal safety review and follow our home/remote working policy. The Group ensures that effective recruitment, retention and incentive programmes are in place. The Group has a comprehensive suite of policies and procedures covering its operational activities that is subject to regular review and revision.
<b>LIQUIDITY RISK</b>	The risk of the Company being unable to meet its current and future financial obligations on time.	The Group currently has a debt facility in the form of a £40m revolving facility, secured by a debenture on the assets of the business. This facility expires in August 2020 and it is the Group's policy to renew such a facility well in advance of this date. This is sufficient to fund planned business growth.
<b>IT RISK</b>	The risk of business disruption from cyber crime or system failures. IT/Cyber risks include: <ul style="list-style-type: none"> <li>IT systems and networks can be damaged and/or information can be lost owing to third party actions.</li> <li>Data protection/information security issues occur or there is a failure to meet the requirements of data protection regulation/legislation (e.g. GDPR).</li> <li>Strategy and architecture risk arising from inadequate requirements gathering and business analysis.</li> <li>Business continuity plan fails to maintain customer service.</li> <li>Outsourced supplier risk arising from the use of external IT platforms.</li> </ul> Major change impacts on daily business and/or results in poor quality delivery.	The Group has an ongoing programme to conduct regular vulnerability assessments against our core infrastructure services. We have a dedicated information security resource and undertake penetration testing of our external and internal networks which helps to identify new or emerging security concerns. A comprehensive business continuation policy and procedure is in place. Disaster recovery tests are performed periodically on critical systems. The Group's cyber insurance cover has been increased in consultation with the Group's insurers. The business change team closely monitors demand and resource plans. There is robust due diligence and monitoring, with third party contracts based on externally provided contract templates.

This Strategic Report was approved by the Board on 26 April 2018 and signed on its behalf by:

**Paul Smith**

Chief Executive Officer  
26 April 2018