

Risk Management

Principal risks are a risk or a combination of risks that, given the Group’s current position, could seriously affect the performance, future prospects or reputation of the Group.

They include those risks that could materially threaten our business model, performance, solvency or liquidity, or prevent us from delivering our strategic objectives.

The Board has overall responsibility for ensuring that risk is managed appropriately across the Group. The Board has established the Group’s risk appetite and strategy, and approved its frameworks, methodologies, policies, and roles and responsibilities.

The Group has a Head of Internal Audit who reports to the Audit Committee Chairman. The priorities of the Head of Internal Audit have been agreed by the Board’s Audit Committee and Risk & Compliance Committee, and focus on (i) high residual risks and (ii) those risks

which have been significantly reduced by Group actions and procedures.

The Group’s approach to risk management is underpinned by the ‘Three Lines of Defence’ model which is summarised in the diagram below.

Responsibility for the First Line of Defence resides with the front-line business divisions and functions (e.g. operations and finance). Line managers are directly accountable for identifying and managing the risks arising in their functional or business areas.

The Second Line of Defence comprises the Group’s central and independent risk management and compliance functions with responsibility for oversight,

compliance monitoring and reporting, and financial crime to the Board’s Risk & Compliance Committee and the Executive Risk Committee. This is led by the Risk and Compliance Director, who reports to the Chairman of the Risk & Compliance Committee and to the CEO.

The Third Line of Defence includes the Head of Internal Audit, who reports to the Chairman of the Audit Committee and is independent of the First and Second Lines of Defence. In addition, external accountants undertake a quarterly audit on behalf of the Group’s external lenders.

During the year, the Group has enhanced its risk management oversight as a result of increasing the department’s resources.

| | 1 FIRST LINE OF DEFENCE | 2 SECOND LINE OF DEFENCE | 3 THIRD LINE OF DEFENCE |
|------------------|--|--|--|
| ROLE | Hold direct responsibility for the performance and monitoring of front-line control activities across the business | Support and challenge the business via control activities Independently review the effectiveness of front-line control activity Manage fraud | Independently assess and assure: Internal control framework Risk management effectiveness |
| FUNCTIONS | Field operations – divisional managers, regional managers, area managers and business managers Central operations Banking and finance | Compliance, risk and financial crime | Internal audit Use of third-party specialists to assist the internal auditor Use of third-party internal auditors and legal specialists |
| | The Group maintains a risk register covering the entire business. Risks are rated according to the probability of occurrence and potential impact. | Each risk is assigned to an appropriate individual and all mitigation and action plans are recorded. | The Group operates only in the UK financial services sector and the Directors believe that whatever form Brexit may take, it is not a material risk to the business. The principal risks faced by the business by risk category are as shown on pages 30 and 31. |

The Directors consider the Group's viability as part of their continuing programme of monitoring risk.

For the purpose of assessing the future prospects of the Group, the Directors have selected a three-year timeframe. This timeframe was selected as it corresponds with the Board's strategic planning horizon.

The assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and uncertainties and how these are identified, managed and mitigated (as shown on pages 30 and 31).

The strategy for the Group is included on pages 12 to 13 and its business model is on pages 10 and 11. Home Collected Credit (HCC) is a long established offering, and parts of the Group have been undertaking this business for more than 80 years.

The Directors review and renew the three-year strategic plan at least annually. Progress against the strategic plan is reviewed every month by the Board through presentations from the Executive Management Team on the performance of their respective business units, the assessment of

market opportunities, and the consideration by the Board of its ability to fund its strategic ambitions.

In addition to standard internal governance, the Group is also monitored against key financial covenants tied in with current funding facilities. These are produced and submitted on a monthly basis with key schedules included in the monthly board papers.

The Group is profitable and cash generative. It 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.

Due to the short-term nature of its products, the Group is well placed to react promptly to any changes in its liquidity requirements.

Based on the above, the Board confirms that it has a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years.