Risk Management

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

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 that 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 framework by focusing on the quality of risk capture and risk updates. This helps to ensure that priorities are given to the most important risks and helps inform decision-making for the future.

FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
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 assess and assure
	Independently review the effectiveness of front-line control activity	Internal control framework
		Risk management effectiveness
Field operations – divisional managers, regional managers, area managers and business managers	Compliance monitoring & oversight	Internal audit
	Horizon scanning by senior personnel	Audit Committee
Central operations	Risk and financial crime prevention	Use of third party specialists to assist the internal audit department
Banking and finance		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. Risks and their status are reviewed regularly.

The Group operates only in the UK financial services sector and, having undertaken a risk assessment as shown on the page opposite, 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 34 to 35.

Viability statement

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 has been 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 (including all variations of Brexit) and how these are identified, managed and mitigated (as shown on pages 34 to 35).

The strategy for the Group is included on pages 10 to 11 and its business model is on pages 8 to 9. HCC is a long established offering, and parts of the Group have been undertaking this business for more than 130 years.

The Directors review and renew the three-year strategic plan at least annually. Progress against the strategic plan is reviewed at every meeting 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 revolving debt facility of £50m, secured by a debenture on the assets of the business. The Group has also agreed a further mezzanine facility of £5m which can be increased to £15m with lender consent. The revolving credit facility expires in August 2020 and the mezzanine facility expires in February 2021. It is the Group's policy to renew its facilities well in advance of these dates.

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

Brexit
As a company operating solely in the UK, with no foreign currency exposure, EU supply chain, or key dependency on overseas staff, the Company has not identified any adverse direct consequences of Brexit, in whatever form it may take.

Management have considered that there may be a period of uncertainty in the general economy after Brexit, with possible increases in unemployment and interest rates as the government may employ some quantitative easing measures to stimulate demand in the domestic economy.

In terms of the impact of increased unemployment, the home credit sector has generally been quite resilient in periods where unemployment has been increasing, due in part to the HCC customer base typically relying on a mixture of wages and benefits within household incomes.

With regard to interest rate increases, management has modelled a number of scenarios where interest rates are increased substantially without the Company breaking any funding covenants.

Conclusion
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.