

# Principal Risks and Uncertainties

Type of Risk	Definition	Impacts	Mitigation
<b>Conduct Risk</b>	The risk of poor outcomes for customers.	<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 of agents and staff is undertaken.</p> <p>First and second-line quality assurance operates alongside an automated, mobile technology-based sales process.</p>
<b>Regulatory Risk</b>	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 only operate in UK. 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.	<ul style="list-style-type: none"> <li>- Interpretation of the Group's regulatory requirements is not consistent with the FCA principles for business and rules.</li> <li>- Legal or regulatory non-compliance.</li> <li>- FCA authorisation process is inappropriately managed.</li> </ul>	<p>Initial gap analysis completed and adjusted when any rules change. We maintain continuous communication with key external stakeholders and professional contacts.</p> <p>Governance, risk and compliance are independently and externally reviewed.</p> <p>We sustain good relationships with key external stakeholders to keep our information updated.</p>
<b>Credit Risk</b>	The risk of default on a debt may arise from a borrower failing to make the necessary payments. The initial risk lies with the lender and includes lost principal and interest, disruption to cash flow, and increased collection costs.	<ul style="list-style-type: none"> <li>- Credit risk and underwriting functions insufficiently assess affordability.</li> </ul>	<p>Group policy prescribes lending constraints coupled with automated credit and underwriting functions.</p> <p>Weekly management information allows the Group to monitor the effects of lending decisions.</p>
<b>Reputational Risk</b>	Reputational risk is the chance of a loss due to damage to, or a decline in, the Group's reputation.	<ul style="list-style-type: none"> <li>- Management style does not encourage effective control over business units.</li> <li>- Poor customer outcomes result in a high level of complaints.</li> </ul>	<p>Effective corporate governance provides business oversight and control.</p> <p>Independent monitoring, for example market surveys and mystery shopping.</p>
<b>Strategic and Business Risk</b>	Strategic risk would arise from poor business decisions, substandard execution of decisions, inadequate resource allocation, and/or from failure to adapt sufficiently to changes in the business environment.	<ul style="list-style-type: none"> <li>- Acquisitions result in stretching resource beyond capability.</li> <li>- Inadequate corporate governance.</li> <li>- Failure to maintain the Company's competitiveness across the markets it serves or plans to serve.</li> <li>- Pursuit of an expansion strategy that over-stretches management's resources.</li> <li>- Wider credit market perceptions and contagion that impacts the Company.</li> </ul>	<p>The recruitment process is highly automated. and efficient.</p> <p>A full Committee governance structure is in place.</p> <p>Detailed strategic planning and oversight is implemented alongside horizon scanning.</p> <p>Committee-based corporate governance structure operates with Board oversight.</p> <p>Trade association membership and lobbying.</p>

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<b>Operational Risk</b>	This describes the risk of loss arising from inadequate or failed procedures, systems or policies, employee errors, system failures, fraud, other criminal activity – indeed any event which disrupts business processes.	<ul style="list-style-type: none"> <li>– Insufficient safety and protection of agents and staff in the home collect environment.</li> <li>– Failure to recruit and retain key staff.</li> </ul>	<p>All agents and staff participate annually in a personal safety review and follow our home/remote working policy.</p> <p>The Group ensures that effective recruitment, retention and incentive programmes are in place.</p> <p>The Group has a comprehensive suite of policies and procedures covering its operational activities that are subjected to regular review and revision.</p>
<b>Liquidity Risk</b>	Liquidity risks arise when a Company is unable to meet its current and future financial obligations on time.	<ul style="list-style-type: none"> <li>– Funding is not available to achieve growth targets.</li> </ul>	The Group currently has a debt facility in the form of a £25m revolving facility secured by a debenture on the assets of the business. This facility expires in March 2019 and it is the Group's policy to renew such a facility well in advance of this date. This is sufficient to fund modest business growth. The Directors are also actively engaged in securing additional facilities in order to exploit business opportunities in the future.
<b>IT Risk</b>	<p>Cyber risks.</p> <p>The potential that a given threat will exploit vulnerabilities of an asset or group of assets, causing harm to the organisation. The risk of an event is measured in terms of its probability and its consequences.</p> <p>Integration risk that arises on the acquisition of a business that may have a significant impact on the risk exposure and risk management strategies.</p> <p>Strategy and architecture risk arising from inadequate requirements gathering and business analysis.</p> <p>Outsourced supplier risk arising from the use of external IT platforms.</p>	<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>– Business continuity plan fails to maintain customer service.</li> <li>– Data protection/information security issues occur, ie data is lost.</li> <li>– Major change impacts on daily business and/or results in poor quality delivery.</li> <li>– Material breach or complete loss of key outsourced service.</li> </ul>	<p>The Group has an ongoing programme to conduct regular vulnerability assessments against our core infrastructure services. Penetration testing of our external and internal networks helps to identify new or emerging security concerns.</p> <p>A comprehensive business continuation policy and procedure are in place. Service level agreements and business continuation plans are verified and tested with outsourced suppliers.</p> <p>We have a dedicated information security resource and full penetration testing is undertaken.</p> <p>The business change team closely monitors demand and resource plans.</p> <p>Supplier management accounts and the supplier failure matrix are closely monitored.</p>

This Strategic Report was approved by the Board on 27 April 2017 and signed on its behalf by:

**Paul Smith**

Chief Executive Officer

27 April 2017