Premium Credit is the No.1 Insurance Financing Company in the UK and Ireland

Condensed Consolidated Interim Financial Statements (unaudited)

Mizzen Mezzco Limited

Period ended 31 December 2018

Mizzen Mezzco Limited

Registered Number: 08179245

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Financial Results

Financial Data **(£ in millions, except percentages and ratios)**	**For the year ended 31 December 2018 (unaudited)**	**For the year ended 31 December 2017 (unaudited)**	**Increase/ (Decrease)**
Net Advances[(a)]	3,376.1	3,418.3	(42.2)
Turnover	123.8	131.5	(7.7)
EBITDA	60.4	71.3	(10.9)
Adjusted EBITDA[(b)]	74.9	85.3	(10.4)
Adjusted EBITDA Margin[(b)]	60.5%	64.9%	(4.4%)
Adjusted Post-Securitisation EBITDA[(c)]	60.6	71.7	(11.1)
Adjusted Post-Securitisation EBITDA Margin[(c)]	48.9%	54.5%	(5.6%)
Cash Conversion[(d)]	87.8%	91.1%	(3.3%)
Profit before tax	18.6	33.5	(14.9)

Financial Data **(£ in millions, except percentages and ratios)**	**For the quarter ended 31 December 2018 (unaudited)**	**For the quarter ended 31 December 2017 (unaudited)**	**Increase/ (Decrease)**
Net Advances[(a)]	820.8	750.6	70.2
Turnover	32.9	32.6	0.3
EBITDA	19.0	16.4	2.6
Adjusted EBITDA[(b)]	21.5	20.9	0.6
Adjusted EBITDA Margin[(b)]	65.3%	64.1%	1.2%
Adjusted Post-Securitisation EBITDA[(c)]	17.6	17.6	0.0
Adjusted Post-Securitisation EBITDA Margin[(c)]	53.5%	54.0%	(0.5%)
Cash Conversion[(d)]	86.4%	83.0%	3.4%
Profit before tax	8.6	8.0	0.6

a. Net advances measures the total value of loans initiated, net of cancellations and mid- term adjustments.

b. Adjusted EBITDA represents EBITDA as adjusted for certain transaction costs, one-time information technology, cyber incident related costs and other expenses, Adjusted EBITDA margin represents Adjusted EBITDA margin as a % of Turnover.

c. Adjusted Post-Securitisation EBITDA is further adjusted for funding costs; Adjusted Post-Securitisation EBITDA margin represents Adjusted Post -Securitisation EBITDA as a % of Turnover

d. Cash conversion represents Free Cash flow as a % of Adjusted Post-Securitisation EBITDA; Free Cash flow represents Adjusted Post-Securitisation EBITDA – Capex.

Note: Full reconciliation of GAAP and non-GAAP measures is presented on page 10

Results for the year ended 31 December 2018

- Net advances for the year ended 31 December 2018 were £3,376.1 million, 1.2% lower than last year, (year ended 31 December 2017: £3,418.3 million). This was driven by broker losses as a result of the market consolidation that was seen in 2017. After normalising for these items, the net advances in 2018 have seen continued strong underlying growth of 5.2% over the prior year, highlighting the benefits the Group receives from the investments it has made in developing compliant digital customer journeys.

- Overall EBITDA decreased by £10.9 million or 15.3% to £60.4 million in the year, (2017: £71.3 million). This reduction in EBITDA was impacted by the reduction in net advances and certain non-recurring earnings in 2017. The key elements of this were:

    - A decrease in Group turnover of £7.7 million, or 5.9%, to £123.8 million for the year ended 31 December 2018, (2017: £131.5 million), due to lower net advances, the impact of certain non-recurring earnings relating to commission provisions released in 2017 (£2.6 million), and the waiving of certain cost recovery fees during the cyber incident to ensure that customers did not suffer detriment as a result of the system outage (£0.5 million).

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- An increase in net credit losses of £3.7 million to £9.3 million for the year ended 31 December 2018, (2017: £5.6 million). This was attributable to the weakening credit environment, leading to higher terminations, whilst the charge in 2017 benefited from a one off recovery of £1.4 million.
- An increase in other non-operating expenditure of £0.4 million to £14.5 million for the year ended 31 December 2018, (2017: £14.1 million), due primarily to incremental costs incurred as a result of the cyber incident.

- Adjusted EBITDA of £74.9 million decreased by £10.4 million for the year ended 31 December 2018, (2017: £85.3 million). Adjusted EBITDA shows the performance of the business with the impact of certain transaction costs, one-time IT expenditure, cyber incident related costs and other expenses removed.
- Adjusted Post-Securitisation EBITDA decreased by £11.1 million for the year ended 31 December 2018, or 15.5%, to £60.6 million, (2017: £71.7 million). This is as a result of securitisation interest costs being £0.6 million higher than prior period due to increases in LIBOR.
- Cash conversion for the year ended 31 December 2018 was 87.8%. This is a reduction of 3.4% over the prior period as our free cash flow decreased by £12.2 million. This was due to higher capital projects spending of £1.1 million and the above-mentioned decrease in Adjusted Post Securitisation EBITDA.
- Profit before taxation for the year ended 31 December 2018 was £18.6 million, 44.5% lower than in the same period last year, (31 December 2017: £33.5 million). This was primarily due to lower turnover (£7.7 million), increased interest costs, and increased administrative expenses of £5.6 million; due to increased losses, cyber incident related costs and the impact of foreign currency exchange movements.

Results for the quarter ended 31 December 2018

- Net advances for the quarter ended 31 December 2018 were £820.8 million, 9.4% or £70.2 million higher than the previous year, (quarter ended 31 December 2017: £750.6 million). This result benefited from business that the group would have expected to have written at the end of September during the cyber incident. Adjusting for the impact of the system outage due to the cyber incident at the end of September, advances in the 4th quarter grew by 3.8% when compared to the prior year.
- EBITDA increased by £2.6 million, or 15.9%, to £19.0 million in the quarter ended 31 December 2018, (quarter ended 31 December 2017: £16.4 million). This is mainly driven by lower project costs partly offset by cyber incident costs.
- Adjusted EBITDA of £21.5 million increased by £0.6 million for the quarter ended 31 December 2018, (quarter ended 31 December 2017: £20.9 million). Adjusted EBITDA shows the performance of the business with the impact of certain transaction costs, one-time IT expenditure, cyber incident related costs and other expenses removed.
- Adjusted Post-Securitisation EBITDA of £17.6 million is flat when compared to the same period in the prior year.
- Cash conversion for the quarter ended 31 December 2018 was 86.4%, which was up by 3.4% over the prior period due to lower capital spend.

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- Profit before taxation for the quarter ended 31 December 2018 was £8.6 million, 7.5% higher than the same period last year, (quarter ended 31 December 2017: £8.0 million). This is again driven by a reduction in administrative costs and slightly increased fee income.

Tom Woolgrove, CEO, commenting on the results said:

"The Group continues to have a clear strategy and a strong commitment towards sustained business growth, value creation and innovation for the future. The Group's financial performance in 2018 has been impacted by a number of external factors, which include the ongoing impact of market consolidation, the change in the regulatory landscape, a weakening credit environment and a cyber incident. Our Adjusted Post-Securitisation EBITDA in 2018 was £60.6 million, a reduction of £11.1 million when compared to 2017.

The reduction in net advances was driven by regulatory and macro-economic changes in the markets in which the Group operates, and the impact of intermediary consolidation and broker losses seen in 2017. Normalising for these items, net advances in 2018 have seen continued strong underlying growth of 5.2% over prior year, highlighting the benefits the Group receives from the investments it has made in developing compliant digital customer journeys.

Despite these challenges, we have maintained our position as the market leader for insurance premium finance in the UK and Ireland.

Throughout 2018, we have continued to make changes to our business to meet our partners' and customers' needs and continue to adapt to changes both in the markets where we operate, and in the regulatory and political landscape. We maintain a strong financial position, continue to generate strong cash flows and are investing in our core business. We will continue to focus on growth by being the trusted finance provider in all of our chosen markets**."**

Use of Non-IFRS Financial Measures (reconciliation on Page 10)

Turnover

Turnover represents interest income, net fee and commission income. Turnover is not specifically defined under, or presented in accordance with, International Financial Reporting Standard (IFRS) or any other generally accepted accounting principles and you should not consider it as an alternative to total income for the period or any other performance measures derived in accordance with IFRS.

EBITDA

EBITDA-based measures are non-IFRS measures. The Group uses EBITDA-based measures as internal measures of performance to benchmark and compare performance, both between its own operations and against other companies. EBITDA-based measures are measures used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortisation methods, financing and capital structures, taxation positions or regimes and exceptional items, the Group believes EBITDA-based measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, the Group believes EBITDA-based measures and similar measures are regularly used by the investment community as a means of comparison of companies in the Group's industry.

EBITDA represents profit for the period before taxation, interest payable and similar charges, depreciation and amortisation, goodwill amortisation and amortisation of Securitisation Facility refinancing fees. 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.

Other

In addition to EBITDA-based measures, the Group has included other non-IFRS financial measures in this report, some of which the Group refers to as "key performance indicators". The Group believes that it is useful to include these non-IFRS measures as they are used by the Group for internal performance analysis and the presentation by its business divisions of these measures facilitates comparability with other companies in the Group's industry, although the Group's measures may not be comparable with similar measurements presented by other companies. These other non-IFRS measures should not be considered in isolation or construed as a substitute for IFRS measures.

Net debt (excluding securitisation) represents total corporate borrowings less cash on the balance sheet excluding SPV cash from the Securitisation Facility ("PCL Cash").

Cash interest expense (excluding securitisation) represents cash interest expense excluding interest payable to the SPV under the Securitisation Facility and certain associated interest rate hedges. Cash interest expense (excluding securitisation), has been presented for illustrative purposes only and does not purport to represent what our interest expense would have been had the issue of the Notes occurred on the date assumed, nor does it purport to project our interest expenses for any period or our financial condition at any future date.

Normalised net advances are net advances after normalising for the impact of key lost and impaired brokers.

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Management Discussion and Analysis – Business Review

Notice

These accounts have been prepared at the level of Mizzen Mezzco Limited.

Principal Activities

We are the leading independent provider of insurance premium and other service fees advances in the UK and Ireland. For the year ended 31 December 2018, the Company had 2.1 million customers and achieved net advances of £3,376.1 million, processing over 25 million direct debits.

The Company's principal objective is to provide a stable and consistent service to its customers and its partners by providing efficient, profitable and valued payment and funding solutions. The Company aims to achieve sustainable organic growth through improving integration, improving customer journeys, offering new products and utilising new technologies, deepening its intermediary relationships, increasing penetration of finance and developing opportunities in new markets.

Our results are largely driven by the size of our advances portfolio, the margin between the interest rate at which we make our advances and our cost of borrowing the funds for our advances, our ability to collect amounts due under the advances we make, and, to a lesser extent, our administrative and overhead costs. Our loss rates have historically been low and generally have not had a significant impact on our results. The size of our advances portfolio is primarily driven by our relationships with intermediaries, finance penetration and renewal rates, competition in the insurance premium and service fees market in which we operate, demand for insurance and other services, and the availability of funds for the advances.

Leadership

In January 2019, we announced that Simon Moran, Chief Sales and Marketing Officer would be joining the Board as a Non-Executive Director. We would like to thank Simon for over twenty years' service to Premium Credit and look forward to him supporting the Group in a different role going forward.

Market

As in recent years, the premium finance market continues to evolve at a rapid pace, particularly in respect to market consolidation and regulatory change. We have continued to strengthen our relationships with intermediaries, as well as acquiring new business relationships, including partners such as British Gas and Staysure. A number of our Retail insurance brokers have experienced weaker trading performance, impacted by competitive Personal Lines markets and changing insurance capacity.
In premium financing, we have seen various new market entrants, but they are still to make any material impact on the market.
In our Specialist Lending business, we are building stronger relationships with Credit intermediaries for the funding of Personal and Commercial tax loans, and have launched an Appointed Representative network and Non-Recourse school fee product for fee-paying schools.

Funding

The existing funding structure ensures that the business maintains a diversified and stable funding platform which reduces its liquidity risk.

Risks

A full description of the principal risks facing the business, together with how they are managed, are set out in our Annual Report and Financial Statements for the year ended 31 December 2018.

Following the cyber incident in September 2018, the Company promptly engaged an independent advisory business to monitor and evaluate the robustness of its systems. This has resulted with the implementation of a number of new technological controls to minimise the risk of a recurrence of such an event.

The Company continues to monitor the uncertainty around Brexit and at this stage we do not expect this to have a material impact on the business.

Regulatory Landscape

We continue to be regulated by both the FCA (in the UK) and the Central Bank of Ireland (in Ireland). We continue to invest resources to ensure the business is conducted in compliance with the principles and spirit of the regulatory environments within which PCL operates.

Technology

Our ongoing investment in technology is focused on delivering digital sales processes and streamlined customer journeys, enabling all our intermediaries to consistently present finance options at the point of sale; irrespective of channel, with the aim of acquiring and retaining more customers, whilst meeting regulatory and compliance expectations. To provide improved efficiency for our intermediaries we have continued to improve our integrations and associated services, as well as improving our digital applications and portals for customers to self-serve, particularly through mobile devices.

Our focus has been on providing a resilient and highly available IT service, whilst also delivering significant change.

Cyber Incident

In September 2018, we were subject to a malicious and targeted cyber-attack, which although we subsequently recovered from, did cause operational and service impacts for our intermediaries and customers. After the incident, we recovered and restored our systems, and following our immediate response, we have become a more resilient business due to the event. We will continue to invest in upgrading our IT infrastructure, increase our operational resilience and IT security, and carry forward the cyber lessons learnt into 2019 planning, supported by third-party assurance. The Group has made a claim against its cyber insurance policy. This insurance claim is in its initial phase and the expected recovery from it cannot be reliably measured at this time.

UK withdrawal from the European Union

Through 2018, we have not seen any material impact arising from the UK decision to leave the European Union, other than the slight weakening of the British pound. This has had a positive impact in 2018 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 (CBI), and so does not depend on EU Passporting. The Directors will continue to monitor the impact of the UK's exist from the European Union on the business.

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Management Discussion and Analysis – Financial Review

Key Performance Indicators

The table below shows the Group's key other financial metrics for the year ended 31 December 2018 and 31 December 2017:

(in millions)	For the year ended 31 December 2018	For the year ended 31 December 2017	Increase / (Decrease)
Net Advances[a]..	£3,376.1	£3,418.3	(£42.2)
Number of non-cancelled Agreements[b]..	2.13	2.15	(0.02)
Number of direct debits processed[c]..	25.54	27.80	(2.26)

(in millions)	For the quarter ended 31 December 2018	For the quarter ended 31 December 2017	Increase / (Decrease)
Net Advances[a]..	£820.8	£750.6	£70.2
Number of non-cancelled Agreements[b]..	0.51	0.48	0.03
Number of direct debits processed[c]..	6.57	6.66	(0.9)

(a) Represents gross advances net of loans for policies or services that have been cancelled by end customers, or which have been cancelled by the insurance policy or service provider
(b) Consists of loan agreements which are expected to complete to term.
(c) Represents the number of direct debit transactions that we processed during the period.

Other Financial Data

The table below shows the Group's other financial data for the period ended 31 December 2018 and 31 December 2017:

(£ in millions, except percentages and ratios)	For the period ended 31 December 2018 (unaudited)	For the period ended 31 December 2017 (unaudited)	Increase / (Decrease)
Adjusted Post-Securitisation EBITDA (Last 12 months)………………………………….	60.6	71.7	(11.1)
Gross debt…………………………………………………………………………………..	189.4	189.4	-
Net debt [a]…………………………………………………………………………………..	159.9	160.7	(0.8)
Cash interest expense (excluding securitisation)………………………………………..	13.3	13.3	-
Ratio of gross debt to Adjusted Post-Securitisation EBITDA……………………………	3.1x	2.6x	0.5x
Ratio of net debt to Adjusted Post-Securitisation EBITDA………………………………	2.6x	2.2x	0.4x
Ratio of Adjusted Post-Securitisation EBITDA to cash interest expense (excluding securitisation) …………………………………………………………………………	4.6x	5.4x	(0.8x)

a. Net debt (excluding securitisation) represents gross debt less cash & cash equivalents as of the last day of the mentioned period.

Net Debt

- Net debt (excluding securitisation) of £159.9 million represents total corporate borrowings (Senior Notes) of £189.4 million, less £29.5 million of Cash and Cash equivalents as of 31 December 2018 (2017: £28.7 million of Cash and Cash equivalents). This shows a decrease of £0.8 million, against £160.7 million as of 31 December 2018 due to increase in Cash and Cash equivalents.
- The increase in the Net debt to Adjusted Post-Securitisation EBITDA ratio of 0.4x for the period ended 31 December 2018 is due to lower Adjusted post-securitisation EBITDA.

- Cash interest expense (excluding securitisation) represents cash interest expense, excluding interest payable to SPV under the Securitisation Facility. Cash interest expense (excluding securitisation) for the year ended 31 December 2018 was at £13.3 million which is the interest payable on the bond.
- The Adjusted Post-Securitisation EBITDA to cash interest expense ratio of 4.6x for year ended 31 December 2018 is worse by 0.8x compared to the year ended 31 December 2017.

Reconciliation of Profit before Taxation to Adjusted Post-Securitisation EBITDA

The following table reconciles profit for the period to EBITDA, to Adjusted EBITDA and to Adjusted Post-Securitisation EBITDA for the year ended and the quarters ended 31 December 2018 and 31 December 2017:

(£ in millions)	For the year ended 31 December 2018 (unaudited)	For the year ended 31 December 2017 (unaudited)	Increase / (Decrease)
Profit/(loss) for the period before taxation	**18.6**	**33.5**	**(14.9)**
Interest payable and similar charges[(a)]	33.6	32.1	1.5
Depreciation and amortisation	6.5	6.2	0.3
Financing fees	0.7	2.0	(1.3)
Currency (gain)/loss	0.3	(2.5)	2.8
Loss on Disposal of fixed assets	0.7	-	0.7
EBITDA	**60.4**	**71.3**	**(10.9)**
Transaction costs[(b)]	0.4	0.3	0.1
One-time information technology and other expenses[(c)]	11.3	13.7	(2.4)
Cyber incident related costs[(d)]	2.8	-	2.8
Adjusted EBITDA	**74.9**	**85.3**	**(10.4)**
Securitisation interest expense[(e)]	(14.3)	(13.6)	(0.7)
Adjusted Post-Securitisation EBITDA	**60.6**	**71.7**	**(11.1)**

a. Includes amortisation of financing costs of £4.7 million with respect to the Securitisation Facility and £1.4m with respect to Bond financing cost for the year ended 31 December 2018, whereas the year ended 31 December 2017 includes £3.8 million with respect to the Securitisation Facility and £1.4m with respect to Bond financing cost.
b. Represents costs relating to sponsor expenses.
c. Represents one-time and IT project change costs.
d. Represents total costs incurred in relation to cyber incident.
e. Represents interest expense payable to SPV under the Securitisation Facility and is presented on an actual basis.

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(£ in millions)	For the quarter ended 31 December 2018 (unaudited)	For the quarter ended 31 December 2017 (unaudited)	Increase / (Decrease)
Profit/(loss) for the period before taxation	**8.6**	**8.0**	**0.6**
Interest payable and similar charges[(a)]	8.5	7.7	0.8
Depreciation and amortisation	1.6	1.7	(0.1)
Financing fees	0.2	0.3	(0.1)
Currency gain	(0.6)	(1.3)	0.7
Loss on disposal of fixed assets	0.7	-	0.7
EBITDA	**19.0**	**16.4**	**2.6**
Transaction costs[(b)]	0.1	0.0	0.1
One-time information technology and other expenses[(c)]	1.3	4.5	(3.2)
Cyber incident related costs t[(d)]	1.1	-	1.1
Adjusted EBITDA	**21.5**	**20.9**	**0.6**
Securitisation interest expense[(e)]	(3.9)	(3.3)	(0.6)
Adjusted Post-Securitisation EBITDA	**17.6**	**17.6**	**-**

a. Includes amortisation of financing costs of £0.9 million with respect to the Securitisation Facility and £0.3m with respect to Bond financing cost for the quarter ended 31 December 2018, whereas the quarter ended 31 December 2017 includes £0.7 million with respect to the Securitisation Facility and £0.3m with respect to Bond financing cost.

b. Represents costs relating to Sponsor expenses.

c. Represents one-time and IT project change costs.

d. Represents total costs incurred in relation to cyber incident.

e. Represents interest expense payable to SPV under the Securitisation Facility and is presented on an actual basis.

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Consolidated Income Statement

(£ in millions)	For the year ended 31 December 2018 (unaudited)	For the year ended 31 December 2017 (unaudited)	Increase / (Decrease)
Group Turnover……………………………………………………………………….	**123.8**	**131.5**	**(7.7)**
Administrative expenses………………………………………………………………………..	(71.5)	(65.9)	(5.6)
Group Operating profit/(loss)………………………………………………………….	**52.3**	**65.6**	**(13.3)**
Interest payable and similar charges [(a)]…………………………………………………	(33.6)	(32.1)	(1.5)
Profit on ordinary activities before taxation …………………………….…	**18.7**	**33.5**	**(14.8)**
Tax on profit on ordinary activities ………………………………………………………	(1.7)	(4.4)	2.7
Profit for the year after taxation……………………………………………	**17.0**	**29.1**	**(12.1)**

a. Includes amortisation of financing costs of £4.7 million with respect to the Securitisation Facility and £1.4m with respect to Bond financing cost for the year ended 31 December 2018, whereas the year ended 31 December 2017 includes £3.8 million with respect to the Securitisation Facility and £1.4m with respect to Bond financing cost.

(£ in millions)	For the quarter ended 31 December 2018 (unaudited)	For the quarter ended 31 December 2017 (unaudited)	Increase / (Decrease)
Group Turnover……………………………………………………………………….	**32.9**	**32.6**	**0.3**
Administrative expenses………………………………………………………………………..	(15.7)	(16.9)	1.2
Group Operating profit/(loss)………………………………………………………….	**17.2**	**15.7**	**1.5**
Interest payable and similar charges [(b)]…………………………………………………	(8.6)	(7.7)	(0.9)
Profit on ordinary activities before taxation …………………………….…	**8.6**	**8.0**	**0.6**
Tax on profit on ordinary activities ………………………………………………………	(0.3)	1.0	(1.3)
Profit for the year after taxation……………………………………………	**8.3**	**9.0**	**(0.7)**

b. Includes amortisation of financing costs of £0.9 million with respect to the Securitisation Facility and £0.3m with respect to Bond financing cost for the quarter ended 31 December 2018, whereas the quarter ended 31 December 2017 includes £0.7 million with respect to the Securitisation Facility and £0.3m with respect to Bond financing cost.

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Consolidated Balance Sheet

(£ in millions)	Notes	As at 31 December 2018 (unaudited)	As at 31 December 2017 (unaudited)	Increase / (Decrease)
Non-current assets				
Intangible assets	1	12.6	11.7	0.9
Tangible assets	2	3.9	4.4	(0.5)
Non-current debtors	3	4.8	6.4	(1.6)
Deferred tax		0.4	0.2	0.2
Total non-current assets		**21.7**	**22.7**	**(1.0)**
Current assets				
Current debtors	3	1,410.0	1,427.1	(17.1)
Cash and cash equivalents	4	66.1	102.1	(36.0)
Total current assets		**1,476.1**	**1,529.2**	**(53.1)**
Total assets		**1,497.8**	**1,551.9**	**(54.1)**
Non-current liabilities				
Borrowings	5	1,159.9	1,184.3	(24.4)
Trade and other payables	6	-	-	-
Total non-current liabilities		**1,159.9**	**1,184.3**	**(24.4)**
Current liabilities				
Trade and other payables	6	430.0	426.9	3.1
Total current liabilities		**430.0**	**426.9**	**3.1**
Total liabilities		**1,589.9**	**1,611.2**	**(21.3)**
Capital & Reserves				
Share capital		44.5	44.5	-
Reserves		(136.6)	(103.8)	(32.8)
Total shareholders' equity		**(92.1)**	**(59.3)**	**(32.8)**
Total liabilities and equity		**1,497.8**	**1,551.9**	**(54.1)**

1. Intangible Assets

Intangible assets include capitalised software costs of £12.6 million as at 31 December 2018, up £0.9 million from 31 December 2017, primarily relating to internally generated software. Intangible assets reflect investment in our infrastructure to improve customer journeys and enhance the quality of information available to the business. As at 31 December 2018, none of internally generated software was impaired (as at 31 December 2017: £nil).

2. Tangible Assets

The net book value Tangible Assets as at the 31 December 2018 was £3.9 million (£4.4 million as at 31 December 2017). The reduction related to the depreciation charge during the year.

3. Debtors

Debtors consist of trade debtors after deduction of provision for irrecoverable debts and unearned income. The debtor balance as at 31 December 2018 was £1,414.7 million (31 December 2017: £1,433.4 million) of which loans and advances to customers net of allowance for impairment was £1,400.7 million (31 December 2017: £1,420.7 million) and prepayments and other assets were £14.0 million (31 December 2017: £12.7 million). The decrease in debtors is primarily due to the decrease in loans and advances to customers which has been driven by the decrease in net advances. Impairment on loans and advances increased by £1.9 million to £6.4 million (31 December 2017: £4.5 million) primarily due to increased terminations in our Specialist Lending and Commercial divisions and a drop in collections.

4. Cash at Bank and in Hand

Cash at bank and in hand of £66.1 million represents SPV cash from the Securitisation Facility of £36.7 million and cash held outside the SPV of £29.5 million as at 31 December 2018 (£102.1 million as at 31 December 2017, represented by SPV cash of £73.4 million and cash held outside the SPV of £28.7 million).

5. Borrowing

Borrowings consist of Securitisation Notes of £973.9 million (net of £4.1 million of set up costs) and Senior Notes of £189.4 million as at 31 December 2018 (these are stated at £186.0 million after netting the unamortised bond set up costs of £3.4 million). The decrease of £24.4 million primarily relates to lower working capital requirements.

Funding is primarily provided by a £1,084.5 million (2017: £1,109.5 million) securitisation funding facility, which comprises £519.0 million of private banking funding and £565.5 million of public asset backed securities. As at 31 December 2018, £977.9 million was drawn down on this facility (2017: £1,005.2 million).

6. Trade and other payables

Trade and other payables of £430.0 million as of 31 December 2018 were up by £3.1 million (31 December 2017: £426.9 million). Of these, trade creditors were £412.8 million at 31 December 2018 (31 December 2017: £408.0 million). Trade creditors relate primarily to premiums and commission payable to intermediaries.

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Consolidated Cash Flow Statement

(£ in millions)	For the year ended 31 December 2018 (unaudited)	For the year ended 31 December 2017 (unaudited)	Increase / (decrease)
Net cash inflow/(outflow) from operating activities……………………………………	50.7	108.5	(57.8)
Net cash inflow/(outflow) from investing activities……………………….……………	(7.4)	(6.3)	(1.1)
Net cash inflow before financing……………………………………………………………	**43.3**	**102.2**	**(58.9)**
Net cash inflow/(outflow) from financing activities……………………………………	(79.5)	(51.2)	(28.3)
Effects of foreign exchange……………………………………………………………………	0.3	0.0	0.3
(Decrease)/Increase in cash…………………………………………………………………	**(35.9)**	**51.0**	**(86.9)**

Cash inflow from operating activities

Cash inflow from operating activities for the year ended 31 December 2018 was £50.7 million (year ended 31 December 2017: inflow of £108.5 million), with net cash inflow decreasing by £57.8 million compared to the prior period. This is primarily as a result of the lower working capital requirements of £61.4 million. This is mainly due to decrease in cash inflow from loans and advances and other receivables by £63.8 million, partially offset by net movement in trade payables, accruals & deferred income (£2.4 million). Apart from this, the outflow on income taxes paid decreased by £4.3 million and interest paid increased by £0.6 million.

Cash outflow from investing activities

Cash outflow from investing activities for the year ended 31 December 2018 was at £7.4 million, which is £1.1 million higher than year ended 31 December 2017. The outflow in both periods represents capital spending, which has increased due to higher investment in our infrastructure.

Cash outflow from financing activities

Cash outflow from financing activities increased by £28.3 million in year ended 31 December 2018 compared to year ended 31 December 2017. This is due to higher drawdown of £32.3 million on our funding facility at the end of 2017, offset by lower facility fees & dividend paid £4.0 million.

Mizzen Mezzco Limited

Consolidated Cash Flow Statement (continued)

(£ in millions)	For the quarter ended 31 December 2018 (unaudited)	For the quarter ended 31 December 2017 (unaudited)	Increase / (decrease)
Net cash inflow/(outflow) from operating activities………………………………………	40.2	68.0	(27.8)
Net cash inflow/(outflow) from investing activities……………………….………………	(2.4)	(3.0)	0.6
Net cash inflow before financing…………………………………………………………………	**37.8**	**65.0**	**(27.2)**
Net cash inflow/(outflow) from financing activities………………………………………..	(57.7)	(23.6)	(34.1)
Effects of foreign exchange…………………………………………………………………………..	0.2	0.1	0.1
(Decrease)/Increase in cash……………………………………………………………………….	**(19.7)**	**41.5**	**(61.2)**

Cash outflow from operating activities

Cash inflow from operating activities for the quarter ended 31 December 2018 was £40.2 million (quarter ended 31 December 2017: inflow of £68.0 million), with net cash inflow decreased by £27.8 million compared to the prior period. This is primarily due to reduction in movements in trade creditors and other payables by £24.8 million offset by decrease in movements in loans and advances and other receivables by £56.5 million.

Cash outflow from investing activities

Cash outflow from investing activities for the quarter ended 31 December 2018 was at £2.4 million, which is £0.6 million lower than the quarter ended 31 December 2017. The outflow in both periods represents capital spending.

Cash inflow from financing activities

Cash outflow from financing activities increased by £34.1 million. This is due to higher drawdown on our funding facility at the end of 2017.