New

2016

Annual Report and Financial Statements

Day

Our owners

On 26 January 2017, the Group was acquired by funds advised by Cinven and CVC Capital Partners (CVC).

Cinven is a leading private equity provider for large European buyouts, having led transactions totalling in excess of €70 billion. Since 1996, Cinven has completed more than 50 buyouts with an enterprise value per transaction of more than €500 million in ten countries across Europe. Cinven focuses on the following six sectors across Europe: business services; consumer; financial services; healthcare; industrials; and technology, media and telecommunications, and has offices in Guernsey, London, Frankfurt, Paris, Madrid, Milan, Luxembourg, New York and Hong Kong.

Cinven has a long and differentiated track record of investing in the financial services sector, including in highly regulated assets, where its track record includes the acquisitions of Premium Credit, Partnership Assurance and Guardian Financial Services in the United Kingdom, Ark Life and Avolon in Ireland, Heidelberger Leben (now renamed Viridium Group) in Germany, Skandia in Germany and Austria and ERGO Italia and Old Mutual Wealth in Italy.

CVC is a leading international private equity and advisory firm. Founded in 1981, CVC today has a network of 24 offices on four continents. To date, CVC has secured commitments of over US$80 billion in funds and has completed over 300 investments in a wide range of industries and countries across the world, with an aggregate enterprise value of approximately US$250 billion. CVC Funds currently have investments in more than 50 companies worldwide, which generate over US$100 billion in revenues and employ approximately 350,000 people. CVC's local knowledge, relevant sector expertise and extensive contacts underpin a 35 year proven track record of investment success.

CVC's financial services team has invested over €2 billion of equity capital in the financial services sector since the team's inception in 2008, including its historic and current portfolio companies, Skrill, Domestic & General and Brit Insurance in the United Kingdom, Avolon in Ireland, Cunningham Lindsey in the United States, Cerved in Italy, Sun Hung Kai in China and Rizal Commercial Banking Corporation and SPi Global in the Philippines.

Cautionary statement

Certain statements included or incorporated by reference within this report may constitute 'forward-looking statements' in respect of the Group's operations, performance, prospects and/or financial condition. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. No responsibility is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in any member of the Group, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by Luxembourg law. All financial information contained in this report relates to the consolidated Financial Statements of NewDay Group Holdings S.à r.l.. However, as set out on page 40, with the exception of the Management report set out on page 54, the governance and risk framework described in this report relate to the governance and risk framework established for the Group's UK subsidiaries. References to the 'Board', 'Group', 'NewDay' and 'Company' should be construed accordingly (where appropriate).

Performance metrics

Underlying metrics referred to throughout the strategic report exclude a number of non-recurring items as detailed on page 14. Definitions of key performance indicators are included on page 12.

Find out more about us on our website
www.newday.co.uk

In this report

Highlights

- Underlying profit growth of 34% to £95m
- Statutory profit growth of 194% to £73m
- Receivables growth of 23% to £1,815m
- Received full authorisation to carry out consumer credit activities in the UK from the Financial Conduct Authority
- Own-brand reached 1.1m customer accounts, growing receivables to over £1bn
- Co-brand generated over 600,000 new accounts and welcomed TUI and Amazon as new partners
- Launched contactless cards, *gold* card upgrades, instant spend online and the *aqua* mobile app
- Launched Unsecured Personal Loans business
- Established two new funding structures and secured additional facilities totalling over £460m
- Agreed the sale of the Group from Värde Partners to funds advised by Cinven and CVC Capital Partners
- Commenced our Corporate Social Responsibility work with the charity Family Action

With 5.8 million customer accounts in the UK and £1.8 billion of receivables, the Group provides credit for customers in two key market sectors: Near-prime (through our Own-brand business); and Co-brand (through our Co-brand business). Having operated our Own-brand business since 2002, we acquired our Co-brand business in 2013 and it has since expanded to include other leading UK and global retail partners.

Financial highlights

Customer accounts

5.8m

(2015: 5.4 million)

Closing receivables

£1,815m

(2015: £1,471m)

Risk-adjusted margin

16.3%

(2015: 15.6%[1])

Statutory profit before tax

£73m

(2015: £25m)

Underlying profit before tax

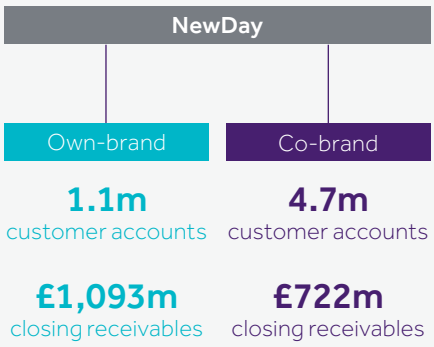
£95m

(2015: £71m)

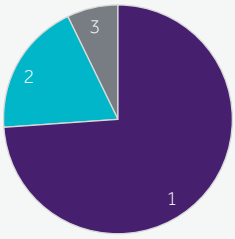
Underlying return on equity

30.4%

(2015: 21.9%)

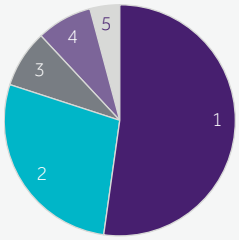


Own-brand product portfolio[2]



1. *aqua*	74%
2. *marbles*	19%
3. *Opus*	7%

Co-brand product portfolio[2]



1. *Debenhams*	53%
2. *Arcadia Group*	27%
3. *House of Fraser*	8%
4. *Laura Ashley*	8%
5. *Other*	4%

[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives, including key performance indicators, have been amended to conform with current year presentation.

[2] Based on number of accounts.

Responsibly meeting customers' needs

Sir Malcolm Williamson
Chairman and Non-Executive Director

I am pleased to present the 2016 Annual Report and Financial Statements. 2016 was a year of robust growth in which the business continued its trajectory from 2015 to deliver another year of record profit, whilst maintaining our investment in new products and strong focus on risk management and regulatory compliance.

Both *aqua* and *marbles* in our Own-brand portfolio (offering products to customers in the Near-prime sector) delivered record growth, in a year where we invested in our digital capability, notably through our new mobile app which allows customers to interface with us using real-time account information and the launch of a dynamic, single page application form. In addition, we introduced *gold* cards for our most loyal Own-brand customers as we continue to respond to our customers' needs. We have also invested in a new Unsecured Personal Loans business, launched in December 2016, aimed at certain Own-brand customers, again showing how our specialist knowledge of the customers in our sectors can be used to broaden our product range.

In our Co-brand portfolio we welcomed two new retail partners, TUI (launched in November 2016) and Amazon (launched in January 2017) in the UK. These new relationships position the Co-brand business to benefit from changing customer behaviour towards more online spending.

Change in ownership

On 11 October 2016 funds advised by Cinven and CVC agreed to acquire the Group from Värde Partners. Following receipt of regulatory and anti-trust approvals, the transaction completed on 26 January 2017. We would like to thank Värde Partners for their support over the last five years and we look forward to working with Cinven and CVC to continue to grow the business.

Regulation

In April we achieved full authorisation to carry out consumer credit activities in the UK from the Financial Conduct Authority (FCA), validating the responsible lending and customer-focused approach that underpins our Manifesto. We were also pleased to proactively refund some fees to customers where we believed that we had not treated our customers in line with our own high standards.

In addition, the FCA issued its initial findings from the Credit Card Market Study, which confirmed that there is healthy competition amongst lenders. We continue to work through the findings, which highlighted some areas for the industry to deliver improved customer outcomes specifically regarding vulnerable customers and those with persistent debt levels. We do not expect to see any material impact on our business model as a consequence of the FCA's final findings. However, we await further clarification on any changes we need to make, and will be supportive of suggestions that raise the benchmark within the industry.

Leadership and governance

Our governance framework continues to be of the utmost importance to the Board and I am pleased to see further developments in our risk and control environment. The Board takes comfort in the measured way that the Executive team are ensuring that our new products and channels are delivered. Further details on the Group's risk management governance can be found on page 20.

For more information go to p.20

Outlook

Our record performance in 2016 has been driven by strong receivables growth alongside appropriate risk management and regulatory compliance. The economic backdrop in the UK following the European Union (EU) referendum on 23 June 2016 remains uncertain and we are constantly monitoring leading indicators of changing customer behaviour. That said, we expect growth to continue into 2017 and are excited about the opportunity to invest further to meet the evolving credit needs of our customers.

On behalf of the Board I would like to extend our thanks to our great team. It is their expertise, coupled with hard work and dedication, that has delivered this impressive set of results. We look forward with anticipation and optimism to a successful 2017 and a close partnership with our new owners.

Sir Malcolm Williamson
Chairman and Non-Executive Director

Strategy

Our strategy allows the Group to responsibly meet the credit needs of customers by offering products aligned to their evolving needs.

Our aim is to create long-term customer relationships that deliver shareholder value.

Our Own-brand products allow customers to establish or improve their credit record, whilst offering them the flexibility and benefits that credit provides.

Our Co-brand products are integral to customers' shopping experiences, making them feel valued and rewarded for their loyalty and strengthening their relationships with our partners.

A year of record performance through continued organic growth

James Corcoran
Executive Director and Chief Executive Officer

2016 was a record year for the Group. Results were driven by continued organic growth, continuous improvement in credit and collections strategies and operational efficiencies which, together, contributed to a 34% increase in underlying profit before tax to £95m (2015: £71m), with statutory profit before tax of £73m (2015: £25m). Coupled with a distribution to our shareholders of £60m, this saw underlying return on equity (RoE) rise by 8.5 percentage points to 30.4% (2015: 21.9%), whilst statutory RoE increased to 23.5% (2015: 7.7%).

In addition to these financial achievements, we achieved a number of important milestones including: obtaining full authorisation to carry out consumer credit activities in the UK from the FCA; the launch of the TUI credit card in November 2016 in partnership with one of the UK's leading travel operators; and the launch of the Amazon Platinum credit card in association with the world's leading online retailer in January 2017. We also launched our Unsecured Personal Loans business which leverages knowledge of our customer segments. Our employee engagement scores of 76% remain above survey norms; we continued to achieve strong transactional Net Promoter Scores as part of our ongoing commitment to deliver great customer service in line with our Manifesto; and we originated over 1,000,000 new customer accounts.

As well as these achievements, we have continued to invest in our infrastructure by developing our digital capabilities including the launch of our mobile app and further enhancements to make it easier for customers to manage their accounts. We also commenced our Corporate Social Responsibility work with the charity Family Action.

Strategic priorities

Strategy	2016 progress
Grow the Own-brand business by responsibly saying "yes" to more customers, whilst maintaining high risk-adjusted returns	• Delivered strong growth on both the *aqua* and *marbles* portfolios • Rolled out *aqua gold* as an upgrade to existing customers, including the use of contactless • Streamlined the applications process, making it more customer-friendly
Leverage the major investment in our scalable Co-brand platform through collaboration with our partners	• Strengthened and extended some existing relationships • Continued to invest in digital capabilities • Welcomed two new retail partners: TUI and Amazon • Enhanced product offerings for Co-brand customers
Deliver a robust approach to credit management	• Stable impairment rate in both Own-brand and Co-brand • Proven collections capability and continual refinement of credit and collection strategies • Successful sale of specific delinquent receivables to third parties
Maintain a strong capital base and funding profile in order to provide a foundation for growth and attractive returns for our shareholders	• Cost of funds benefited from the first full year of public securitisation of our Own-brand portfolio, along with further bond issues • Delivered funding solutions to support new retail partners and Unsecured Personal Loans • Paid a £60m distribution to our shareholders

[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives, including key performance indicators, have been amended to conform with current year presentation.

[2] Net debt is calculated as senior debt (comprising debt issued and other borrowed funds) less cash (loans and advances to banks).

2016 performance		Future goals
Own-brand closing receivables **£1,093m** (2015: £787m)	**Own-brand risk-adjusted income** **£137m** (2015: £94m[1])	• Enhance our product range to better meet the evolving needs of the Near-prime market • Enhance the customer journey from the application process through underwriting on to on-book support • Grow the recently launched Unsecured Personal Loans business
Co-brand closing receivables **£722m** (2015: £684m)	**Co-brand risk-adjusted income** **£119m** (2015: £113m[1])	• Embed NewDay into partners' digital customer journeys, enhancing the volume of online originations and utilisation • Grow the recently launched TUI and Amazon partnerships • Add new retail partners to the portfolio
Own-brand impairment rate **14.8%** (2015: 14.9%)	**Co-brand impairment rate** **3.1%** (2015: 2.8%)	• Continue to develop and innovate our credit strategies • Continual review and refinement of our collections toolkit
Underlying return on equity **30.4%** (2015: 21.9%) **Statutory return on equity** **23.5%** (2015: 7.7%)	**Net debt[2]/equity** **4.7x** (2015: 3.9x)	• Continue to deliver strong shareholder returns • Continue to maintain strong capital base and liquidity profile

Delivery against core strategic goals results in record financial and non-financial performance

For more information go to p.32

Focus on putting our customers first

Our Manifesto, as detailed on page 32, underpins everything we do. After its introduction in 2014, we have continued to challenge ourselves to ensure that our Values are embedded throughout the organisation, resulting in 2016 being a year of milestones for the Group:

- following a detailed review of our fee structure, we proactively refunded customers those fees we felt were no longer consistent with the aims of our Manifesto;
- we launched the mobile app for *aqua* customers and enabled online servicing, allowing over 300,000 customers to manage their finances in a way that suits them;
- of the re-pricing completed in 2016, 55% saw decreased rates, reflecting the improved credit rating of those customers;
- in response to customer feedback we introduced *gold* cards and contactless cards; and
- we continued to deliver strong transactional Net Promoter Scores (NPS) throughout the year. Our NPS score of +65 demonstrates our favourable service levels when benchmarked against leading competitors.

Increasing number of new customers

We opened over 1,000,000 new customer accounts during 2016. The Own-brand business welcomed 273,000 new *aqua* accounts and *marbles* continued to have strong resonance with customers, generating 116,000 new accounts. In the Co-brand business, our five retail partners generated 632,000 new accounts, primarily through their collective network of over 3,000 stores.

In addition to our continued relationships with our existing retail partners, some of which were extended and improved during 2016, we have added two further partners to our portfolio; leading retailers TUI and Amazon. We look forward to welcoming their customers in 2017.

As receivables grow and develop, we continue to focus on ensuring our operating capabilities keep pace. During 2016 this resulted in:

- instant online spend capabilities, enabling Co-brand customers to access credit upon application;
- improved access for customers to interact with us using real-time information, including the new mobile app;
- commencing rollout of contactless cards, responding to customer needs; and
- a simplified, dynamic, single page application process.

New customer accounts

1.0 million

Robust credit management

Gross receivables ended the year at £1,815m (2015: £1,471m), driven by growth across our open portfolios (businesses acquiring new customers), with a small proportion of receivables remaining within closed portfolios.

The open book receivables growth was underpinned by strong customer acquisitions and growth in spend levels, resulting from our low and grow strategy, as we responsibly allow customers to access more credit as they demonstrate their ability to manage it.

Whilst we are proud of our growth trajectory, this will not be at the expense of credit quality. Although the impairment rate increased at the Group level to 10.0% (2015: 8.7%) this was mainly a result of a change in mix reflecting the continued growth of the Own-brand portfolio, which has a higher impairment rate. This growth is in line with the Group's strategic priorities and the increase in the impairment rate is within the Group's risk appetite.

The impairment rate on the Own-brand portfolio reduced slightly to 14.8% (2015: 14.9%) with the impairment rate on the Co-brand portfolio increasing marginally to 3.1% (2015: 2.8%).

Underlying risk-adjusted margin (RAM) improved significantly at the Group level to 16.3% (2015: 15.6%[1]) driven by the re-price of our Co-brand portfolio, reflecting a more appropriate risk-reward balance and the full year benefit of the Own-brand public securitisation which materially lowered our cost of funds. This was slightly offset by a higher impairment charge as a result of the growing receivables portfolio.

[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives, including key performance indicators, have been amended to conform with current year presentation.

Cost efficiency driven by benefits of scale

Our continual focus on cost management resulted in a significant improvement in our underlying cost-income ratio to 39.0% (2015: 42.2%[1]). Underlying costs grew at 19% compared to underlying total income growth of 28%. We continued to identify cost-saving initiatives and remained focused on ensuring that incremental costs delivered sufficient returns.

Regulatory changes

We were delighted that the FCA endorsed our approach to customers by approving our application for full authorisation to carry out consumer credit activities in the UK. As part of our responsible approach to lending, we will continue to ensure that customer outcomes are considered in all aspects of our business. We do not expect to see any material impact on our business model as a consequence of the FCA's final findings from the Credit Card Market Study. However, we await further clarification on any changes we need to make, and will be supportive of suggestions that raise the benchmark within the industry.

Provision for Payment Protection Insurance

In line with other retail financial services companies, the Group has increased its provision for Payment Protection Insurance (PPI) resulting in a £19m charge to the income statement. The year end PPI provision increased to £56m which reflects anticipated increased claim rates across the industry following the publication of the FCA's consultation paper 'CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation' in August 2016. This consultation paper proposed new rules and guidance on the handling of PPI complaints following the Supreme Court's decision in *Plevin v Paragon Personal Finance Ltd* and a revised deadline for receiving complaints about mis-selling and other matters relating to the sale of PPI. The provision represents our current best estimate of the remaining redress and associated costs. The FCA published its policy statement 'PS17/3: Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance' on 2 March 2017. Our initial opinion is that this announcement does not materially change this assessment.

Sustainable capital base and liquidity management

In addition to the public issue of securitised bonds in prior years, we have diversified our funding sources and maturities through further bond issues, funding our growth, and obtaining additional facilities to fund new initiatives. No bonds mature before December 2017.

As at 31 December 2016, our net debt to equity ratio was 4.7x (2015: 3.9x) with the increase driven by a combination of growth in funding and our strong cash position which allowed us to return £60m to our shareholders in December. This reflects our intention to efficiently manage our capital structure, within our risk appetite.

Following the distribution, unrestricted cash at the year end was £129m.

Governance and effective risk management

As we continue to evolve our business and expand the sophistication of our product offering, we have ensured that we have a robust and scalable governance structure to ensure that enterprise risk is managed at every stage. We have further developed our capability in this respect and believe we are well placed to manage our continuous progression.

Outlook

2016 was a record year, in which we delivered significant improvements in financial metrics, expanded our product offering and further enhanced our infrastructure. In 2017 we will continue to closely monitor the economic conditions in the UK following the result of the EU referendum. Whilst we have not seen any impact to date, we will adjust our credit strategies in an appropriate manner. We have made a solid start to 2017, giving us the confidence that we can maintain a strong trajectory.

James Corcoran
Executive Director and Chief Executive Officer

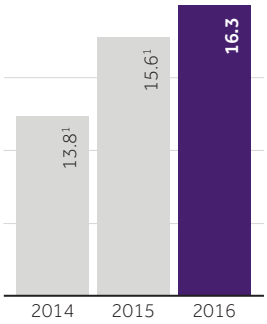
Key performance indicators

The Group uses a number of Key Performance Indicators (KPIs) to review performance and assess progress against each of our strategic objectives. These KPIs are supplemented by other key drivers in assessing growth opportunities, investment and business initiatives.

Performance

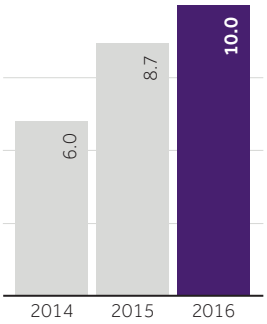
Risk-adjusted margin (%)

16.3%



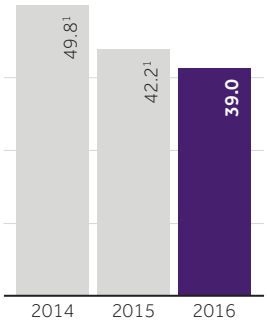
Impairment rate (%)

10.0%



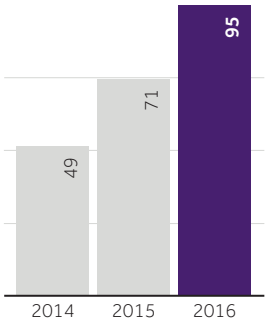
Underlying cost-income ratio (%)

39.0%



Underlying profit before tax (£m)

£95m



Definition

Risk-adjusted income (total income less impairment) (£256m)/ average gross receivables (£1,567m)

Impairment (£157m)/ average gross receivables (£1,567m)

Underlying costs (servicing costs, investment costs and salaries, benefits and overheads) (£161m)/total income (£412m)

Risk-adjusted income (£256m) – underlying costs (£161m)

Explanation

RAM increased to 16.3% (2015: 15.6%[1]). The increase is principally the result of an increase in income yield reflecting the re-price of our Co-brand portfolio and the full year benefit of lower funding costs in our Own-brand portfolio. This is partly offset by the increase in the Group impairment rate which reflects the continuing change in mix of receivables towards Own-brand.

The Group's impairment rate increased to 10.0% (2015: 8.7%) principally driven by the continuing change in mix of receivables, with Own-brand significantly increasing in size and now representing 60% of Group receivables.

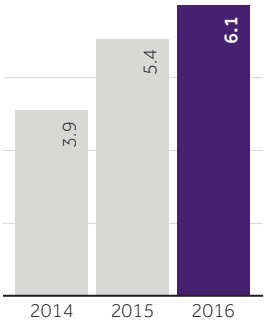
The Group's underlying cost-income ratio improved to 39.0% (2015: 42.2%[1]). The reduction reflects both significant growth in the business and the increased income yield with underlying total income increasing by 28%. In contrast, the increase in underlying costs was limited to 19% as we continued to benefit from operational efficiencies and the scalability of our platform.

Underlying PBT increased to £95m (2015: £71m), largely due to the £49m (24%) increase in underlying risk-adjusted income, compared to a £25m (19%) increase in underlying costs. The improvement in risk-adjusted income is principally attributable to growth in the Own-brand portfolio and an increase in income yields for the Group as a whole. The 19% growth in costs was driven by higher servicing costs, resulting from growth in receivables, and investments in change projects.

[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2014 and 2015 comparatives, including key performance indicators, have been amended to conform with current year presentation.

Underlying return on assets (%)

6.1%

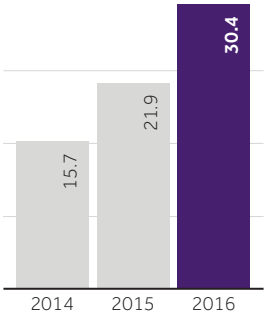


Underlying profit before tax (£95m)/average gross receivables (£1,567m)

Group underlying return on assets improved to 6.1% (2015: 5.4%). The improvement largely reflects the increased profitability driven by RAM.

Underlying return on equity (%)

30.4%

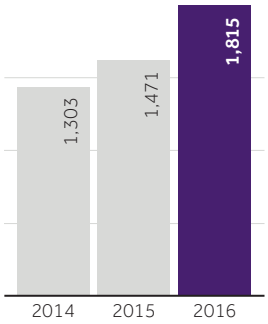


Underlying profit before tax (£95m)/average equity (£313m)

Group underlying RoE increased to 30.4% (2015: 21.9%). The improvement was driven by the increase in profitability during the year. Underlying RoE using year end equity was 31.8% reflecting the £60m distribution to our shareholders in December.

Closing receivables (£m)

£1,815m

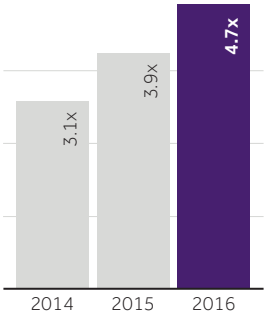


Gross customer balances

Group receivables ended the year at £1,815m (2015: £1,471m). Open book receivables increased by £396m to £1,629m, a 32% increase during the year, largely driven by growth in our *aqua* and *marbles* portfolios.

Net debt/equity

4.7x



Net debt (£1,401m)/ closing equity (£299m)

Net debt/equity rose to 4.7x (2015: 3.9x); the uplift in the year was driven by the increase in senior debt following the issuance of further term notes under our existing securitisations to fund receivables growth and the £60m distribution to shareholders, partly offset by the increase in cash balances reflecting the strong operating cash flows generated by the Group.

Financial review

Highlights

- Statutory profit before tax of £73m (2015: £25m)
- Underlying profit before tax of £95m (2015: £71m)
- Risk-adjusted margin of 16.3% (2015: 15.6%[1])
- Underlying cost-income ratio of 39.0% (2015: 42.2%[1])
- Statutory RoE of 23.5% (2015: 7.7%)
- Underlying RoE of 30.4% (2015: 21.9%)
- £60m distribution paid to shareholders

Overview

For the year ended 31 December 2016, the Group recorded a statutory profit before tax of £73m (2015: £25m).

Statutory profit before tax includes a number of non-recurring or one-off items which do not represent the Group's underlying performance:

£m	**2016 £m**	2015 £m	Financial Statements reference
Statutory profit before tax	**73.4**	25.0	
Movement in PPI, CCA and CPP provisions[2]	**18.4**	37.6	Note 3, 18
Acquisition fair value unwind	**(5.8)**	(4.8)	Note 3, 4
All colleague acquisition bonus	**8.9**	–	
Project expenses	**–**	13.5	
Fair value gains on derivatives	**–**	(0.5)	
Underlying profit before tax	**94.9**	70.8	

The movement in provisions principally relates to an uplift in the provision for PPI claims reflecting the updated guidance set out in the FCA's consultation paper 'CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation' issued in August 2016. This updated guidance has resulted in the Group increasing its provision for two principal reasons: (i) the extension to the claims cut-off date; and (ii) an increase in claims arising from the Supreme Court decision in the *Plevin v Paragon Personal Finance Ltd* case. The £56m provision as at 31 December 2016 represents our current best estimate of the remaining redress and claims handling costs. The FCA published its policy statement 'PS17/3: Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance' on 2 March 2017. Our initial opinion is that this announcement does not materially change this assessment.

Acquisition fair value unwind reflects the amortisation of a fair value adjustment on the Group's acquired portfolios.

The all colleague acquisition bonus relates to a bonus payable to employees and certain Directors in connection with the completion of the acquisition of the Group by funds advised by Cinven and CVC.

In 2016, project expenses have been included within underlying profit as these relate to ongoing changes within the business.

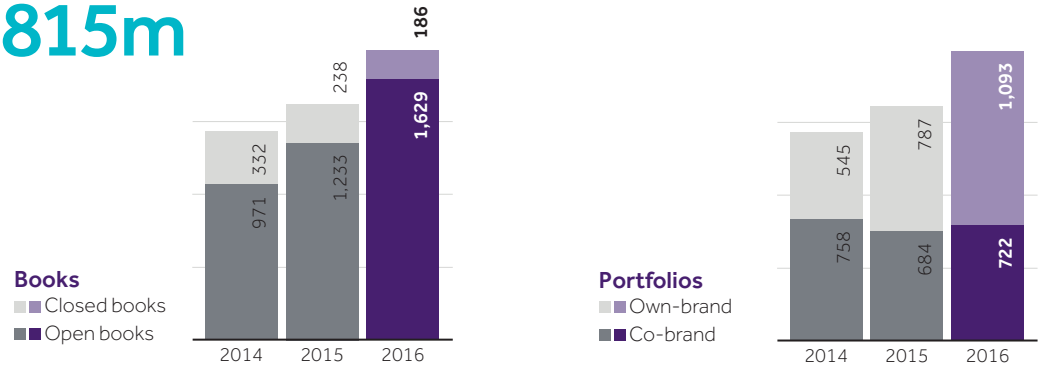
[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives, including key performance indicators, have been amended to conform with current year presentation.

[2] CCA included in 2016.

Group financial performance

Group closing receivables (£m)

£1,815m



Management basis income statement £m	2016 Own-brand	2016 Co-brand	2016 Unsecured Personal Loans	2016 Group	2015 Own-brand	2015 Co-brand	2015 Group
Interest income[1]	**260.8**	**132.2**	**–**	**393.0**	181.2	121.0	302.2
Cost of funds	**(18.5)**	**(11.3)**	**(0.5)**	**(30.3)**	(17.8)	(11.5)	(29.3)
Net interest income[1]	**242.3**	**120.9**	**(0.5)**	**362.7**	163.4	109.5	272.9
Fee income[1]	**31.4**	**18.3**	**–**	**49.7**	26.3	22.2	48.5
Total income[1]	**273.7**	**139.2**	**(0.5)**	**412.4**	189.7	131.7	321.4
Impairment losses on loans and advances to customers	**(136.3)**	**(20.3)**	**–**	**(156.6)**	(96.2)	(18.7)	(114.9)
Risk-adjusted income[1]	**137.4**	**118.9**	**(0.5)**	**255.8**	93.5	113.0	206.5
Operating costs[1]	**(38.4)**	**(77.6)**	**(2.9)**	**(118.9)**	(30.7)	(63.0)	(93.7)
Salaries, benefits and overheads				**(42.0)**			(42.0)
Underlying profit before tax				**94.9**			70.8
Other costs				**(18.4)**			(51.1)
Fair value unwind				**5.8**			4.8
All colleague acquisition bonus				**(8.9)**			–
Gains on derivatives				**–**			0.5
Profit before tax				**73.4**			25.0
Tax				**(1.7)**			(0.9)
Profit after tax				**71.7**			24.1

In preparing the management basis income statement, cost recoveries have been presented as a component of servicing costs rather than as income (a reconciliation to the statutory income statement is detailed in note 3). Additionally, receivables disclosed in this section are gross receivables (customer balances excluding any impairment provision and acquisition fair value adjustments).

Closing receivables increased to £1,815m, a 23% rise on 2015, driven by growth in the Own-brand portfolio. Open book receivables increased to £1,629m, a £396m uplift on 2015, with *aqua* accounting for £250m of the increase (*aqua* represented 45% of closing receivables in 2016 compared to 39% in 2015).

Net interest income for the Group increased by £90m[1], a 33% uplift compared to 2015. This reflects the significant growth in our Own-brand receivables and the re-pricing of our Co-brand portfolio in late 2015.

Fee income increased by £1m, driven by growth in our Own-brand business partially offset by the reduction in interchange income following implementation of the EU regulation capping income at 0.3% of transactional value for credit card spend.

Impairment increased by £42m during the year with the overall Group impairment rate rising to 10.0% (2015: 8.7%). In line with our strategy to continue to grow the Own-brand business, the change in portfolio mix is the main driver of the increased impairment rate for the Group as a result of the higher impairment rate associated with the Near-prime sector. Own-brand now represents 60% of total receivables (2015: 54%).

We continued our strategy of growing the Own-brand portfolio organically with 273,000 new *aqua* and 116,000 new *marbles* accounts originated during 2016.

This was a key driver of the £306m (39%) increase in Own-brand receivables. Our Co-brand portfolio also increased receivables by £39m through our strategy of continued engagement with our retail partners and commitment to enhancing product offerings for our Co-brand customers.

The Unsecured Personal Loans business incurred costs attributable to the funding and launch of this new product offering.

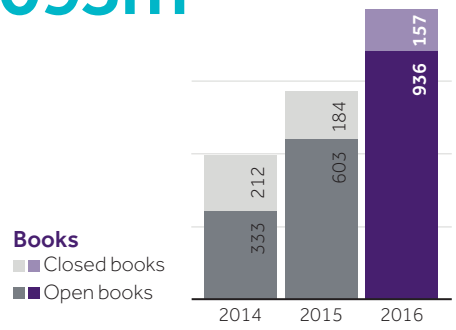
Underlying costs of £161m increased by £25m (2015: £136m[1]), a 19% uplift on 2015 against 28% growth in underlying total income. The increase was driven by higher servicing costs reflecting the growth in our receivables and significant investments in the business, including the expansion of our digital capabilities and the costs associated with the launch of our new retail partners and Unsecured Personal Loans products.

[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives, including key performance indicators, have been amended to conform with current year presentation.

Own-brand

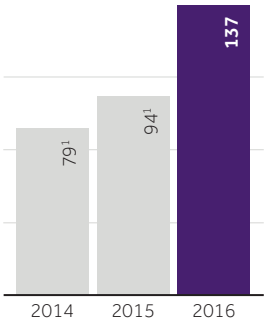
Own-brand closing receivables (£m)

£1,093m



Own-brand risk-adjusted income (£m)

£137m



Own-brand receivables increased by 39% to £1,093m at year end (2015: £787m). This substantial increase was driven by growth in the number of new customers, with 389,000 new accounts originated during the year (2015: 341,000), and higher customer spend resulting from our low and grow strategy.

Own-brand open book receivables increased to £936m at year end, a 55% increase compared to 2015 (2015: £603m). The closed book continued to run-off in line with expectations, with £157m (2015: £184m) of receivables outstanding at the year end.

Own-brand risk-adjusted income increased by 47% to £137m (2015: £94m[1]) principally reflecting growth in the business and the full year benefit of reduced funding margins following completion of the Own-brand public securitisation in 2015.

The growth in the open book was the main driver of the portfolio's growth in interest income to £261m; an increase of £80m compared to 2015.

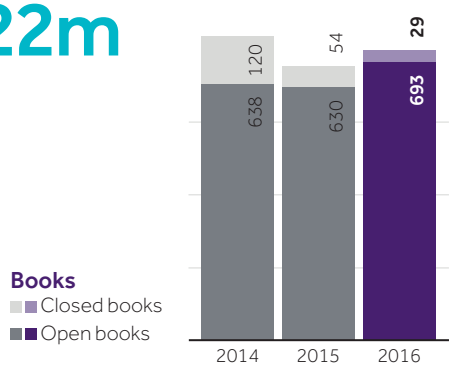
Cost of funds were marginally higher than 2015 with increased costs driven by higher borrowings to fund the strong receivables growth, partly offset by the benefit of a 0.5 percentage point reduction in funding margins.

Total impairment increased by £40m principally due to the increase in the size of the portfolio, partly offset by a marginal reduction in the impairment rate to 14.8% (2015: 14.9%). The decrease reflects the benefit of our refinement to credit and collection strategies.

Co-brand

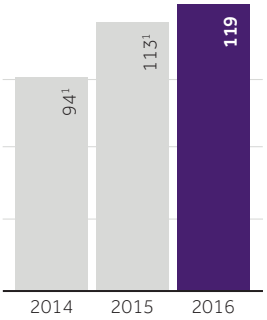
Co-brand closing receivables (£m)

£722m



Co-brand risk-adjusted income (£m)

£119m



Following a period of consolidation, the Co-brand portfolio returned to growth in the year with receivables increasing by 6% to £722m (2015: £684m). Open book receivables increased by 10% to £693m (2015: £630m) driven by an increase in customer spend and enhanced product offerings.

Co-brand risk-adjusted income increased by 5% to £119m (2015: £113m[1]) with higher interest income partly offset by a reduction in fee income as a result of lower interchange income following implementation of the EU regulation to cap income at 0.3% of transactional value.

The re-pricing initiatives completed in Q4 2015 were the principal driver of the £11m increase in interest income. The portfolio saw interest margins improve by 2.5 percentage points in the year.

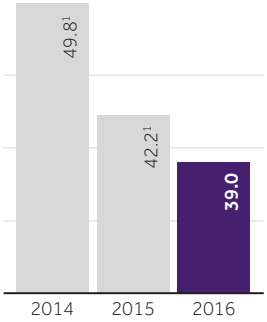
The impairment rate for the Co-brand portfolio was marginally higher than prior year at 3.1% (2015: 2.8%). The stability in impairment performance reflects the increasing maturity profile of the portfolio and the stable risk profile of the customer base.

[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives, including key performance indicators, have been amended to conform with current year presentation.

Delivering on cost efficiency

Underlying cost-income ratio (%)

39.0%



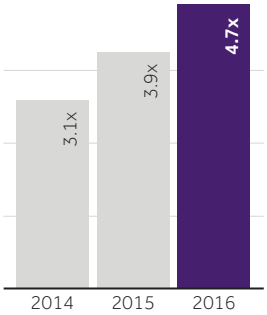
The Group's underlying cost-income ratio reduced to 39.0% (2015: 42.2%[1]). Whilst total income increased by 28% to £412m, the increase in underlying costs was limited to 19%.

We continue to benefit from the significant investment in our operational capabilities made in 2014 and 2015. The £25m increase in underlying costs includes the ongoing cost of serving a larger number of customers along with continued investments in the business to deliver improvements to our digital capabilities, the onboarding of two new retail partners, TUI and Amazon, and the launch of Unsecured Personal Loans.

Capital and liquidity

Net debt/equity

4.7x



In 2016 we successfully returned to the capital markets with the issuance of a series of term notes under our Own-brand securitisation.

We were also pleased to secure new credit facilities which will fund receivables in our new retail partnerships and our Unsecured Personal Loans business.

The staggered nature of our maturity profiles means that 27% of debt facilities are due for refinancing in less than one year and 73% are due in one to five years.

The net debt/equity ratio increased to 4.7x (2015: 3.9x). The increase is attributable to the increase in senior debt levels and a distribution to shareholders of £60m (2015: £40m). This reflects the Group's strong liquidity position following completion of our securitisation programmes in 2015 and the ongoing generation of operating profit across the Group. Liquidity remained strong throughout the year, with a cash balance of £169m at year end, of which £129m was unrestricted.

There is no regulatory capital requirement for any subsidiary other than NewDay Ltd due to its status as an authorised payment institution. The current levels of capital for NewDay Ltd exceed the minimum capital requirement with headroom of £6m.

The Group and its subsidiaries are subject to various requirements and covenants related to levels of capital and liquidity. The Group regularly monitors compliance with these requirements and covenants to ensure they are met at all times.

The number and nominal value of all the parent company's shares are detailed in note 19.

Effective risk management and governance

Following the development work undertaken in the previous year, 2016 has seen the Group take steps to embed corporate governance and the Risk Management Framework in line with the evolving complexity of the business and our plans for future growth.

Approach to risk management

Our Risk Management Framework is embedded within our corporate governance structure with a strong emphasis on effective oversight, challenge and control. Risk appetite thresholds are set to ensure the business strategy is delivered in a sustainable and responsible way.

The Board has ultimate responsibility for the setting of risk appetite and oversight of the Risk Management Framework, and delegates the monitoring and oversight responsibility to the Board Risk Committee.

The Risk Management Framework is delivered through our three lines of defence operating model ensuring appropriate ownership within the business (the first line of defence), independent oversight and assurance is provided to the Executive team and the Board by the Enterprise Risk Function (the second line of defence), whilst assurance is also provided to the Board by internal audit (the third line of defence).

The Chief Executive Officer, supported by the Management Committee, is responsible for the day-to-day management of the business and has delegated authority from the Board to make decisions on risk matters within our agreed risk framework. The Chief Executive Officer also implements the decisions made, policies approved by the Board and deals with matters arising within the ordinary course of business.

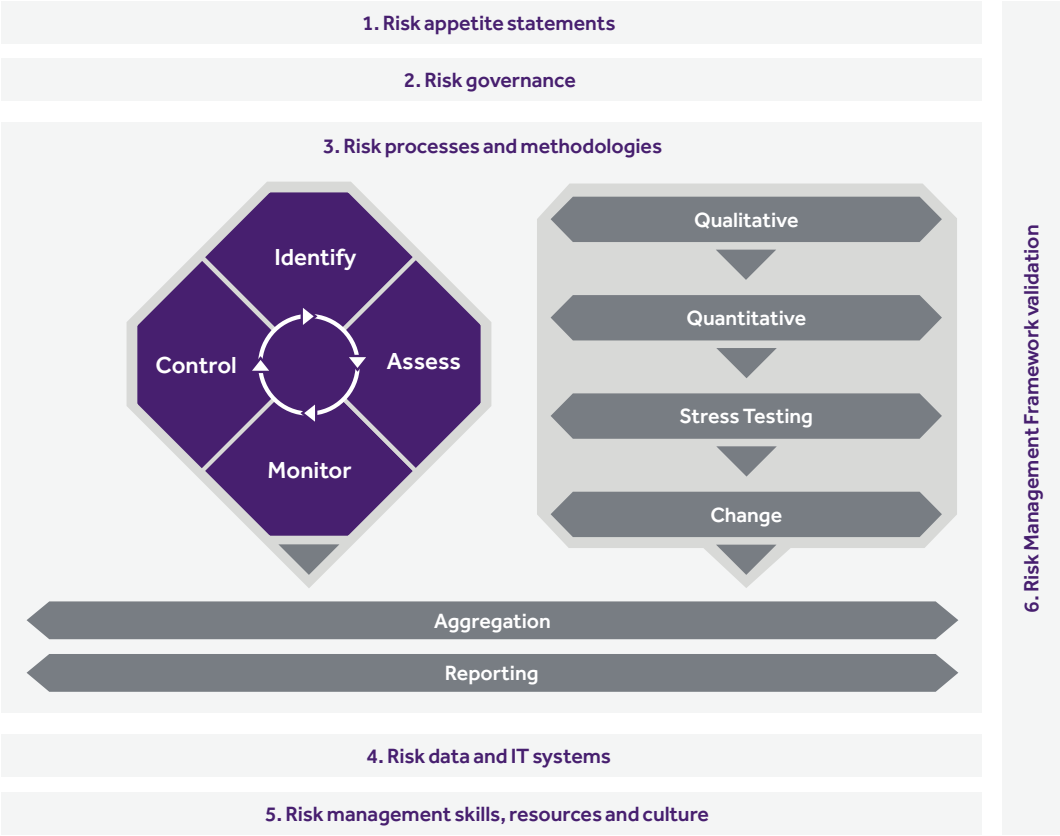
Risk Management Framework

The Group operates an overarching Risk Management Framework to articulate the Group's approach to risk management. This document is then supported by the five sub-frameworks covering financial control, credit risk, liquidity, funding and cash management risk, conduct risk and operational risk.

The Risk Management Framework is a collection of day-to-day tools, processes and methodologies that support the Group in defining risk appetite, documenting the governance of risk and identifying risk processes and methodologies to assess, monitor and control the risks. The Risk Management Framework informs development of the risk infrastructure and provides a sound basis for more informed risk-based decision-making across the business.

The Group utilises formal governance committees to oversee the continued suitability of its overarching Risk Management Framework and five sub-frameworks.

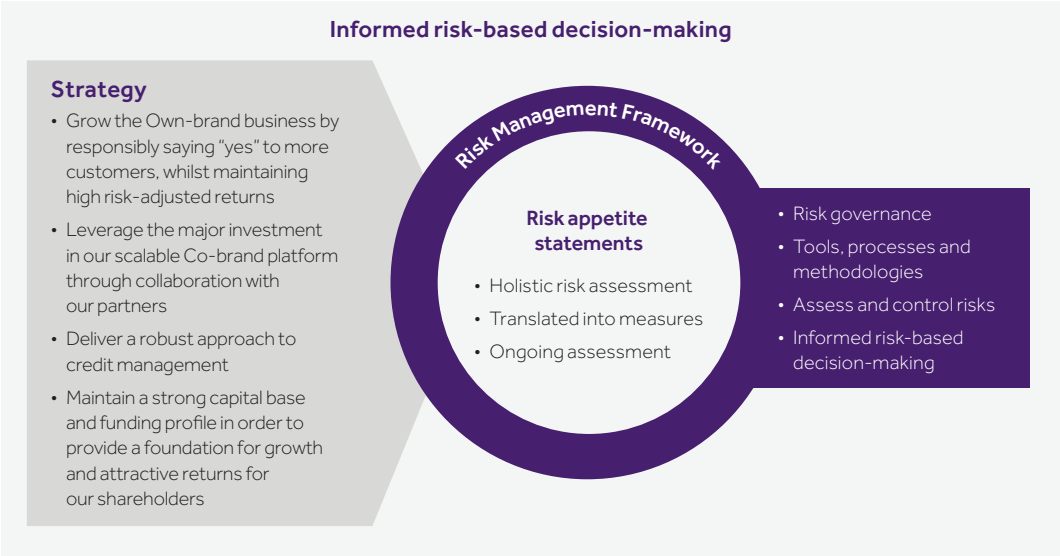
The Risk Management Framework comprises six core components:



Component 1: Risk appetite statements

Our risk appetite statements are the link between the overall business strategy and the management of risk through the Risk Management Framework.

The statements are cascaded down into their component parts, including risk appetite objectives and triggers. This enables the risk appetite to inform day-to-day decision-making.



Three risk appetite objectives underpin the delivery of our strategic objectives:

- business conduct (includes legal, regulatory and conduct risk): our objective is to treat our customers fairly and to ensure that they remain at the heart of everything we do. We will work to ensure that our customers do not suffer detrimental outcomes as a result of our product design, sales or post-sales processes and will correct identified errors. We seek to embed our customer-focused ethos within the governance and culture of the organisation;
- operational performance (includes operational risk): our objective is to fulfil our customer commitments through systems and processes that are appropriately controlled, scalable, cost-effective and comply with applicable external and internal rules, laws and regulations. This includes having efficient and effective processes; technology and systems that are reliable, scalable and provide the right level of automation; having the right number of skilled and motivated people in place; and developing and retaining talent. We seek to have appropriate oversight, challenge and governance in place over planned changes; and
- financial strength (includes credit, financial control, liquidity, funding, capital and cash management risk): our objective is to maintain a strong financial position by managing profitability, credit quality and cash generation and ensuring that our financial strength and liquidity are maintained at levels that reflect our desired financial and credit risk profile, comply with bank covenants and regulatory requirements, and enable planned growth in both normal and stressed conditions.

The Board uses both quantitative and qualitative measures to monitor performance under each objective.

Risk appetite measures are monitored monthly by the relevant business committees and holistically by the Enterprise Risk Management Committee (ERMC) and the Board Risk Committee, with appropriate actions being taken where triggers have been breached. Risk appetite is set by the Board and approved at least annually as part of the business planning process and reflects the Group's latest commercial, economic and regulatory thinking.

Component 2: Risk governance

The table below details the risk governance structure in place across the Group:

Risk	Credit risk	Liquidity risk	Market risk	Operational risk	Customer and Conduct risk (including regulatory and compliance)	Strategic risk
Board governance	Board					
	Board Risk Committee					
Management governance	Management Committee					
	Enterprise Risk Management Committee					
	Credit Risk Committee	Asset and Liability Risk Committee		Operational Risk Committee	Customer and Conduct Risk Committee	
Core policy	Board Risk Management Policy					
Frameworks	Overarching Risk Management Framework					
Sub-framework	Credit Risk Framework	Liquidity, Funding and Cash Management Risk Framework		Operational Risk Framework	Conduct Risk Framework	Financial Control Framework

The Board is ultimately accountable for risk and the oversight of risk management. It considers the appropriateness of the Risk Management Framework in line with risk appetite and Group strategy. The Board considers the most significant risks facing the Group and uses quantitative and qualitative exposure measures to monitor and challenge performance.

The Board delegates responsibility for risk management oversight to the Board Risk Committee, which consists of at least three members. The Board articulates its approach to risk management via the Board Risk Management Policy which is reviewed, updated with required amendments, and approved annually.

Reporting to the Chief Executive Officer (CEO) and Board Risk Committee, the Chief Risk Officer (CRO) leads the Enterprise Risk Function which is responsible for second line of defence oversight, advice and guidance within the corporate governance three lines of defence model. Key risk responsibilities include:

- providing risk-focused advice as an input into business decisions;
- providing reports to both the ERMC and the Board Risk Committee; and
- providing the Board Audit Committee with risk updates as part of the standing agenda.

The CRO chairs the ERMC, which is responsible for reviewing and reporting on all key internal and external risks faced by the Group.

Executive and Governance Committees
The following business level committees provide management with a structure to ensure appropriate focus is applied to the oversight and management of each risk type:

Management Committee chaired by the Chief Executive Officer
The Management Committee assists the CEO in the performance of his duties within the bounds of his authority. This includes: (i) reviewing the organisational structure of the Group and making recommendations for change; (ii) ensuring the control, coordination and monitoring within the Group of risk and internal controls, including oversight of the activities of the ERMC; (iii) ensuring compliance with relevant legislation and regulations; (iv) safeguarding the integrity of management information and financial reporting systems; and (v) ensuring that matters which are reserved to the Board as set out in the Board terms of reference are properly referred to the Board for approval.

ERMC chaired by the Chief Risk Officer
The ERMC is responsible for reviewing, monitoring and reporting on key internal and external risks faced by the Group. These are:

- credit risk;
- financial and liquidity risks;
- operational risk;
- conduct risk, including regulatory and compliance; and
- managing the effectiveness of the Risk Management Framework in the first line of defence.

Credit Risk Committee chaired by the Credit Risk Director
The Credit Risk Committee monitors credit performance and is responsible for reviewing and reporting on key internal and external credit risks faced by the Group covering functional areas, including credit risk performance, new customer management, existing customer management, collections, recoveries, fraud and impairment calculations.

Asset and Liability Risk Committee chaired by the Director of Treasury
The Asset and Liability Risk Committee is responsible for identifying and recommending any financial and liquidity risk policies to the Board Risk Committee and reviewing and reporting on all material financial and liquidity risks across the Group.

Operational Risk Committee chaired by the Chief Operating Officer
The Operational Risk Committee monitors operational performance and the operational risk profile and is responsible for reviewing and reporting on principal internal and external operational risks and risk events faced by the Group, including fraud; employment practices and workplace safety; client products and business practices; damage of physical assets; business disruption and systems failures; and execution, delivery and process management.

Customer and Conduct Risk Committee chaired by the Chief Commercial Officer
The Customer and Conduct Risk Committee is responsible for reviewing and reporting on customer outcomes and conduct risk and supporting systems and controls in order to ensure appropriate customer focus.

Three lines of defence

Managing risk effectively is important to the Group and fundamental to the way NewDay oversees its business. The diagram below details the Group's three lines of defence model:

	Name	Activity
1st line of defence	Business	Risk/reward management Executes the business strategy as set by the Board. Conducts day-to-day business within the parameters of our risk appetite and Risk Management Framework.
2nd line of defence	Enterprise Risk Function	Oversight and advice Provides independent oversight of the risk profile of the business and operation of the Risk Management Framework.
3rd line of defence	Assurance (internal audit)	Independent assurance Provides independent assurance on the design, operation and effectiveness of the control framework, including activities performed by the first and second lines of defence.

Business – first line of defence

The business consists of all activities that are not within the Enterprise Risk Function or independent assurance. The finance function and legal and conduct advisory team are part of the first line of defence, although their specialist advisory nature means their activities will often include supporting the Enterprise Risk Function.

The business is responsible for the day-to-day management of risk and control. The leaders of each business area have primary accountability for the performance, operation, compliance and effective control of risks affecting their business area.

Enterprise Risk Function – second line of defence

The Enterprise Risk Function is an independent risk management capability, reporting to the CRO, providing oversight of the operation of the business, including the effectiveness of risk management and the controls in place to mitigate risk and ensuring appropriate balance is maintained between risk and reward.

It also provides risk-focused advice as an input to business decisions. The Enterprise Risk Function ensures that appropriate Risk Management Frameworks are in operation, along with related policies and processes, to ensure that the business operates within its risk appetite.

The CRO reports to the CEO and independently to the Chairman of the Risk Committee. The CRO also has independent access to the business and Board members, as appropriate.

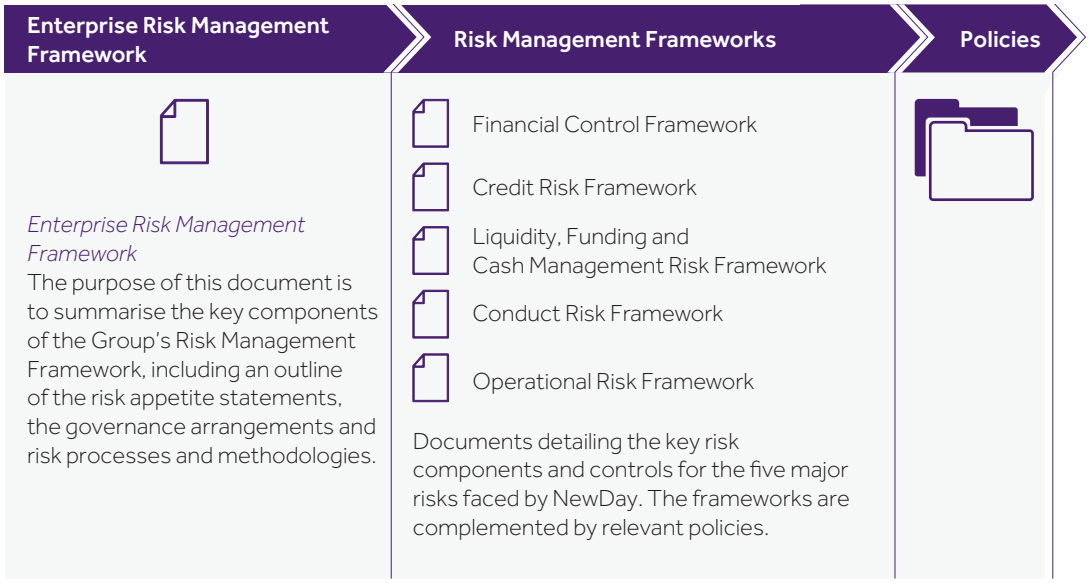
Assurance (internal audit) – third line of defence

Assurance is provided by the internal audit function which is independent of both the business and the Enterprise Risk Function, and reports to the Chairman of the Audit Committee. The Audit Committee report is detailed on page 46.

For more information go to p.46

The internal audit function assesses the effectiveness of risk management, control and governance processes in monitoring, managing and mitigating risk.

Component 3: Risk processes and methodologies
Risk management processes and methodologies are central to the framework, allowing for the identification, assessment, control and monitoring of risk.



Qualitative
Defined processes for the identification, assessment, control and monitoring of risk. These processes are used to assess risks both within the Group and third party suppliers and agents.

Quantitative
Defined models and processes for the quantification of risk exposures with oversight at the ERMC where senior management are made aware of quantitative methodologies which allow assessment of the risk profile against risk appetite, and limits for credit risk and financial risk.

Policies
Policies set out how we interact with customers, employees, partners and regulators to ensure the risk profile is managed in a manner proportionate to its scale and complexity.

Risk reporting
Risk reporting articulates risk information in a clear and concise manner to inform decision-making and to enable the Board and its relevant committees to monitor and manage the Group's risk exposures in line with its risk appetite. Risk management reporting facilitates the management and escalation of risks in line with the risk appetite set by the Board.

Component 4: Risk data and IT systems
Risk data and IT systems supply the information required for the risk management processes and methodologies to operate effectively and deliver the risk management strategy and objectives. Management information is monitored and reported throughout the governance process.

Component 5: Risk management skills, resources and culture
Risk management is the responsibility of every colleague to act in accordance with the Group's risk culture as set out in the customer Manifesto. It includes the management of specific risks and controls delegated to them as part of their remit and general, broader responsibilities relating to relevant laws and legislation.

Communications, training, performance management and reward structures support the effective operation of the Risk Management Framework. Regulatory risk-based training is mandatory for all employees, and communicating the importance of risk management is an ongoing part of the wider assurance activity.

The Enterprise Risk Function supports the business by providing specific guidance and training where required. Additionally, risk training is provided on an ongoing basis to Board members.

Component 6: Risk Management Framework validation
Monitoring, reviewing and testing the components of the Risk Management Framework to ensure its effectiveness and alignment to the risk strategy and overall business plan.

Principal risks overview

The ongoing identification, assessment, monitoring and management of the Group's risk profile occurs through the established management and committee structures which operate across the organisation, and through the Board Risk and Audit Committees, as well as the Board itself.

Risks are measured on a qualitative and quantitative basis. Data is gathered through quantitative measurement for credit and financial risks, together with qualitative assessment through the Group risk registers. This is complemented with senior management top-down challenge. Our 'risk radar' of the current principal risks that are identified as material to the business is frequently presented to the Board for their discussion and input. Each risk is challenged to ensure it is mitigated as appropriate and is within our risk appetite.

The following table details the principal risks facing the Group, the mitigants in place to ensure the risk is managed to an acceptable level and the specific risk factors in 2016.

Strategic risk

Description	Impact	2016 principal risk factors
The risks arising from a sub-optimal business strategy or business model	Financial loss, reputational damage or failure to meet internal and/or public policy objectives	• Brexit • New business development • Product development

Mitigants	Enhancements in 2016	Direction for 2017
• Business strategy and annual/dynamic review process • Business budgets defined, allocated and monitored to align with strategic objectives with formal quarterly reviews • Risk appetite aligned with strategic objectives and business planning • Diversification of Co-brand partners and product offerings • Robust outsourcing and supplier oversight processes • Ability to deploy multiple levers from new business growth, credit allocations and cost controls	• Embedding of enhanced new product approval process including monthly governance forum and revised standardised templates • Risk appetite further embedded in the planning and change structures • Review of business plan in light of EU referendum result	• Continued execution of operating model • Further enhance the linkages between risk appetite and strategic decision-making

Macro-economic risk

Description	Impact	2016 principal risk factors
The risk of adverse movements in economic trends in the UK	Detrimental effects upon the anticipated returns and business strategy of the Group	• Brexit • UK economy

Mitigants	Enhancements in 2016	Direction for 2017
• Business strategy and annual review process • Business budgets defined, allocated and monitored to align with strategic objectives • Risk appetite aligned with strategic objectives and business planning • Diversification of Co-brand partners and product offerings • Robust outsourcing and supplier oversight processes • Ability to deploy multiple levers from new business growth, credit allocations and cost controls	• Brexit dashboard devised and subject to regular review	• Continue to monitor Brexit developments and economic indicators • Continue to monitor macro-economic risk via quarterly risk assessments • Further enhance the stress testing framework

Regulatory risk

Description
The risk that a change in laws or regulations governing the Group may affect the business model

Impact
Significant alterations to the business model may have a material impact on the performance and profitability of the organisation

2016 principal risk factors
- FCA Credit Card Market Study

Mitigants
- Review of legislative and regulatory change and ongoing compliance by the legal and conduct advisory team
- External legal advice sought where circumstances dictate
- Engagement with relevant regulatory bodies
- Participation in consultative/market reviews
- Project management of large scale regulatory projects, for example business readiness for FCA regulation
- Proactively deploying agreed FCA Credit Card Market Study actions

Enhancements in 2016
- Productive engagement with the FCA in relation to their Credit Card Market Study
- Conclusion of participation in FCA thematic reviews (Early Arrears Management and Incentives and Remuneration)
- Regulatory and Industry Body engagement policy introduced
- Specialist legal counsel engaged for project support as appropriate

Direction for 2017
- Achieve readiness for the extension of the Senior Managers and Certification Regime in 2018
- Further engagement on FCA Credit Card Market Study, including delivery of agreed industry remedies
- Preparation for implementation of the Second Payment Services Directive and General Data Protection Regulation in 2018
- Continue to understand and respond to industry-wide events
- Increase internal legal resource with addition of a regulatory lawyer and a finance lawyer

Credit risk

Description
The risk that unexpected losses may arise as a result of customers failing to meet their obligations to repay

Impact
Increased impairment provisioning requirements and potential for increased losses

2016 principal risk factors
- Growth of the receivables portfolio
- UK economy

Mitigants
- Daily performance monitoring with ability to modify credit and collections strategies and actions at short notice
- Credit Risk Committee overseeing the execution of the Credit Risk Management Framework
- Credit risk policies and procedures
- Credit risk strategies
- Model governance framework
- ERMC oversight

Enhancements in 2016
- Continued enhancement of the Credit Risk Management Framework
- Completed the resourcing of the Credit Risk team
- Completion of activities in line with our internal plan for adoption of an IFRS 9 compliant impairment framework
- Credit line increase policy refresh across the credit lifecycle
- Completion of a third party collections placement programme and enhancements to collection strategies
- Enhanced credit risk monitoring
- Implementation of credit risk strategies to support new product launches

Direction for 2017
- Further enhancement of credit risk strategies
- Enhance the credit risk data architecture and the granularity of credit risk data
- Further progress in the delivery of a compliant IFRS 9 impairment framework

Financial risk (including financial control and liquidity/cash and funding)

Description	Impact	2016 principal risk factors
a) The risk that the Group may not have sufficient liquidity to fulfil its short, medium and long-term objectives and/or meet its financial obligations as they fall due	a) Unrestricted cash ensures that the Group can implement its business plan under normal conditions and within the Board agreed cash risk profile. If there is insufficient unrestricted cash this could impact the ability to meet ongoing financial commitments, invest in new business or pay dividends	• Development and implementation of new aspects of securitisation reporting • Maintenance of unrestricted cash levels • Funding arrangements in light of new business development and new products
b) The risk of material financial and management reporting misstatements occurring or errors in finance processes	b) Weak controls around financial processes may result in the following: • Misstatement of external reporting (Annual Report and Financial Statements, bank submissions, regulatory reports or securitisation reports) could impact our reputation and lead to financial loss and/or withdrawal of funding • Misstatement of information for internal decision-making lead to financial loss • Financial losses may result from incorrect payments to third parties	

Mitigants	Enhancements in 2016	Direction for 2017
• Maintaining sufficient funding facilities • Financial Control Framework (FCF) governing processes and procedures across finance • First, second and third line of defence control and review supplemented by external audit of Financial Statements	• Established two new funding structures and secured additional facilities • Unrestricted cash remained above risk appetite • Ongoing development of the FCF and process improvements	• Renew and refinance, where appropriate, funding facilities that mature during the year • Following completion of the acquisition by funds advised by Cinven and CVC, an additional £30m revolving credit facility became available to the Group that provides additional unrestricted cash • Delivery of finance and treasury system enhancements • Continued FCF development • Continued second and third line of defence reviews and external audit testing

Operational risk

Description

The risk of inadequate or failed internal processes and systems; loss of customer data; higher PPI claims; or from external events including legal, internal and external fraud but excluding application fraud and strategic/business risks

Based on the Group's operating model, this extends to all of the services and processes provided by third parties

Impact

Reputational damage, regulatory censure and/or financial loss

2016 principal risk factors

- Evolving cyber crime and cyber security threat
- FCA stance on PPI remediation
- Scale and pace of transformation
- Reliance on several key suppliers
- Manual processing

Mitigants

- Operational Risk Committee overseeing the Operational Risk Framework
- Supplier governance framework
- New product approval committee
- Process quality assurance procedures
- Financial reconciliation controls
- Change governance and dedicated project management resources
- Business Continuity Management
- Logical access management
- Information Security Framework
- Penetration testing
- IT incident management
- Physical security
- Recruitment, remuneration and performance management

Enhancements in 2016

- Embedding of the framework across the organisation
- Enhancements to the framework and governance, including further maturity of the Operational Risk Committee contents
- Roll out of monthly control attestations across key functions
- Increased resources and wider remit of the Operational Risk Oversight team (the second line of defence)
- Further enhancement of IT security tools, capabilities and monitoring
- Further improvements to controls over the security of customer data
- Continued focus on cyber defence given the continually evolving threat of external attack. Specialist resource was recruited to lead the IT risk function, training was undertaken, tools were enhanced and penetration testing was conducted
- Implementation of controls over debt collection agencies (launched in 2016)

Direction for 2017

- Continued Risk Framework improvements
- Embedding of enriched change management risk assessments
- Improved risk aggregation and monitoring
- Tightened alignment of risk appetite and business objectives
- Further enhancement of IT security tools, capabilities and monitoring
- Further enhancement of controls over the security of customer data
- Continued focus upon and further enhancement to cyber defences
- Ongoing enhancement of third party governance programme
- Further strengthening of controls, particularly for manual processes
- Continued review of operating model

Conduct risk

Description
The risk of customer detriment arising from inappropriate culture, products and processes

Impact
Reputational damage, regulatory censure and/or financial loss

2016 principal risk factors
- Reliance upon third party sales model
- FCA Credit Card Market Study
- FCA full authorisation

Mitigants
- Customer and Conduct Risk Committee overseeing the Conduct Risk Framework
- Our Manifesto, Values and risk and control training
- New product approval committee
- Retail partner monitoring and relationship management
- Supplier governance programme
- Policies and processes for vulnerable customers
- Policies and processes for complaint handling
- Quality monitoring
- Performance measurement and reward in risk and control
- Engagement in risk and control measured in company colleague survey

Enhancements in 2016
- The Board and Committees focus on customer outcomes via the customer outcomes radar and comprehensive conduct risk dashboard
- Ongoing focus and enhancements to the key areas of vulnerability, affordability, persistent and problematic debt
- Enhancements to new product approval process
- Customer insight required for every product annual review
- Vulnerable customer treatment best practice sharing with industry peers
- Implementation of revised complaints handling and reporting process in light of revised FCA rules
- Enhanced account management health check programme tailored to customer needs with improved outcomes
- Accelerated enhancement of Conduct Risk Framework
- Engagement with Financial Ombudsman Scheme to develop enhanced complaint handling process

Direction for 2017
- Ongoing enhancement of third party governance programme
- Creation of bespoke strategies regarding vulnerability and affordability
- Creation of customer care team dedicated to special handling for vulnerable customers
- Review and amend problematic and persistent debt processes in light of FCA Consumer Credit Market Study findings
- Enhance quality monitoring approach to focus on improving customer outcomes
- Implement any relevant changes in light of the FCA's Thematic Review of Arrears

Market risk

Description
The risk of direct or indirect losses that arise from fluctuations in values of, or income from, assets or in movements in interest or exchange rates or credit spreads

Impact
Reputational damage, regulatory censure and/or financial loss

2016 principal risk factors
- Interest rate movements in the market

Mitigants
- Not undertaking activities which expose the Group to market trading risk
- The need for interest rate swaps (or equivalent) to hedge liabilities is continually assessed and utilised where required

Enhancements in 2016
- Due to the simple nature of the interest rate risk facing the Group no enhancements were made during 2016 and the Group chose to be unhedged against changes to LIBOR

Direction for 2017
- Continued monitoring of the interest rate curve and appropriate actions taken as required

Our Manifesto

We want to help our customers be better with credit so that they can enjoy the benefits it provides, including financial flexibility and convenience. Our priority is to ensure that our products and services meet our customers' needs.

Customers are at the heart of our Manifesto and our Manifesto is at the heart of our business strategy.

As a result, we are committed to being a welcoming, understanding, knowing and rewarding business. That is how we build long-term relationships with our customers.

Our Manifesto is underpinned by four core principles. These principles help cement our relationships with our customers, ensuring that they are enduring and rewarding.

Our Manifesto pillars	Activities in 2016
Welcoming We do our best to responsibly say "yes" to as many people as possible who apply for credit. We engage with customers, whether directly or through our partners, to ensure affordability criteria are met and that we provide the right service, offer the right rate and give clear information. We want customers to have a great experience with us because our products and services are simple, intuitive, useful and are backed up by people committed to helping customers be better with credit.	• Improved our decisioning models to be able to responsibly accept more customers • Simplified our application forms and processes • Welcomed over 1,000,000 new customers and two new Co-brand retail partners, TUI and Amazon • Delivered mobile apps and improved online account management to improve our customer experience
Understanding We do not see our customers as a short-term revenue opportunity, but a lifelong relationship. Our customers may want to change product as their circumstances change – we help them with that change. If things are not going quite to plan for them, we will be there to offer support, providing a solution for moving forward.	• Created 'health check' communications to support vulnerable customers • Reviewed our fees policy to save our customers money on an ongoing basis • Delivered fee education communications for selected Own-brand customers • Conducted a major review of how we treat customers encountering issues with vulnerability, affordability and persistent debt • Partnered with the charity Family Action to support families suffering disadvantage
Knowing We have considerable knowledge of the varying needs of our customers and provide a range of products to suit these different needs. Our approach is to provide the products, services and tools that help all of our customers be better with credit. We use our analytical expertise, combined with partner insight, to the benefit of our customers. We provide tools that help people manage their credit more easily and allow them to access the benefits it provides.	• We launched Unsecured Personal Loans to give greater options to selected customers • Continuously surveyed our customers to understand how they view us; almost 80% of our new Own-brand customers say that the card meets their needs either well, or very well • Customer listening and transactional NPS surveys ensured continued customer focus
Rewarding We reward our customers for being better with credit. This can mean providing benefits as a result of them paying on time and sticking to the commitments made to us or, through our bespoke Co-brand products developed with our partners, providing rewards for our customers' loyalty. Ultimately, our success as a business is based on helping customers be better with credit.	• 70% of our customers improved their credit rating in their first 12 months with us • Launched *gold* cards on both our Own-brand and Co-brand portfolios • Co-brand customers earned £22m in reward points in 2016 • Delivered targeted, added value offers such as balance transfers and retailer offers

Our culture

We have created a culture at NewDay that attracts and engages people who are committed to making a real difference for our customers. This not only makes NewDay a great place to work, it also provides opportunities for growth to all of our colleagues and ultimately drives the sustainable growth of the business.

Our culture is underpinned by a set of core values that support the delivery of the commitments detailed in our Manifesto to be a welcoming, understanding, knowing and rewarding business.

Priorities in 2016 and beyond	Activities in 2016
We are committed to developing our people to achieve their personal aspirations and our company ambitions.	We launched our Leadership Capability Framework (LCF), which articulates the capabilities we value in our managers and leaders. Through six leadership strategies it works in concert with our Values, our commitment to our Manifesto and the core leadership capabilities required of NewDay leaders. It is at the core of our development programme.
We encourage all of our colleagues to have a voice. We are committed to listening.	Along with our 'Ask ExCo' online forum, open Q&A at our quarterly town halls and informal meetings with our Management Committee, we run our engagement survey, Pulse, twice a year. Our engagement index consistently outperforms external benchmarks. Our latest Pulse check-in showed that 64% of colleagues felt that NewDay was an organisation that listens to its people, compared to a survey norm of 61%.
Risk and control are key to our success; we balance our entrepreneurial spirit with applying good judgement around our risk appetite.	In 2016 we increased our focus on the risk and control culture. We have introduced a new risk and control assessment measure within our performance management framework and have completed a risk culture audit to establish our baseline understanding of risk and control in the business. Furthermore, we are developing a risk and control development programme to launch in 2017 as part of the broader LCF curriculum.
We are committed to recognising and rewarding our colleagues for what they deliver and how their behaviour aligns to our Values.	2016 saw the introduction of a number of new benefits for colleagues including increased employer pension contributions, a voluntary benefits scheme (NewDay Lifestyle) and season ticket loans. We will continuously review our reward offer to colleagues to ensure that we remain competitive in the market.
We are committed to making sure prospective and new colleagues feel welcome.	We have moved our resourcing in-house in 2016 with very positive results. The introduction of our new applicant tracking system has enabled the team to promote roles both internally and externally which has resulted in an increase in colleague mobility and direct sourcing. In 2016, 9% of our colleagues have secured new roles within the Group.

Sustainability

We believe that the long-term interests of all our stakeholders are best served by maintaining a high standard of corporate responsibility in all areas of our operations. Responsible lending is at the heart of our business and we are committed to being a welcoming, knowing, understanding and rewarding company for our customers, partners and employees, as well as our local communities.

Equality and diversity

The Group is committed to ensuring its working environment is one in which employees feel valued and respected. We operate an equal opportunities policy and oppose all forms of discrimination; we believe employees, prospective employees, partners, suppliers and customers should be treated fairly regardless of race, colour, nationality, gender, age, religion, marital status, sexual orientation, disability, or any personal characteristics.

We are committed to encouraging the recruitment, training, career development and promotion of disabled persons, having regard to their particular aptitudes and abilities, and to retain and retrain colleagues who become disabled while in our employment.

We support the provision of a living wage and are focused on developing our employees so that they reach their full potential. Our bi-annual, externally managed employee surveys consistently demonstrate high levels of employee engagement with 76% of employees saying they felt engaged in our latest survey (2015: 75%); significantly above the survey norm of 66%.

In 2016, the number of employees grew by 7% to 859 and the proportion of females as at 31 December 2016 was as follows:

	2016 females	2015 females
Employees	**54%**	56%
Management Committee	**14%**	14%
Board	**25%**	25%

The Group aims to have an appropriate balance of Directors on the Board. Following completion of the Cinven and CVC acquisition the composition of the Board has changed. Notwithstanding this we remain committed to diversity and continue to encourage individuals within the business to maximise opportunities to enhance their experience and take on senior roles.

Environment

We are a leading consumer finance provider and therefore our overall environmental impact is considered to be low. However, we recognise the importance of minimising the impact our business has on the environment, which is predominantly related to environmental issues such as resource use and business travel.

Our corporate headquarters is located in one of the most environmentally friendly offices in the UK, rated 'outstanding' by the Building Research Establishment Environmental Assessment Method (BREEAM). We continue to look for opportunities to enhance the environmental performance of our sites in both London and Leeds. A dedicated facilities team ensures that all buildings are managed efficiently and in compliance with all applicable laws and regulations.

In 2016, we launched a Cycle to Work scheme allowing employees to acquire bicycles tax efficiently for commuting purposes. In addition, all business travel is centrally controlled via a single booking agency.

Social and community

We are committed to supporting the community and contribute to a number of registered charities that provide financial advice and serve local communities across the UK. In 2016, £130k was donated to charities providing debt advice and counselling in the UK.

During the year we established a Charity Committee comprised of volunteer employees who promote and organise fundraising initiatives across the Group's offices in London and Leeds. The Committee also oversees the Group's matched-funding scheme to which all employees are eligible to apply. The scheme provides funding for individual, employee-led charity activities. In 2016, £18k was donated to local community charities, as well as those charities supported by employees. Employees also donated 222 gifts for vulnerable children as part of the Group's Christmas Toy Appeal.

In 2016, we selected Family Action as our charity partner and made donations totalling £140k. Family Action provides practical, emotional and financial support to those who are experiencing poverty, disadvantage and social isolation. The Group donates funding to support Family Action's national grant scheme that helps families regain independence following a crisis.

Human rights

The Group respects all human rights. All aspects of our operations and, where material, our policies are guided by the Human Rights Act 1998 and the International Labour Organization's core standards. We are fully committed to supporting human rights through our compliance with all relevant laws and regulations.

As part of the financial services sector, we acknowledge that we have a role to play in supporting the healthy functioning of the UK financial system and that how we do business is critically important. We recognise that we have a responsibility to all of our stakeholders including our customers, colleagues and shareholders, as well as to our communities and society in general. We take this responsibility very seriously.

Strong oversight and leadership

The Board's extensive and diverse experience ensures our strategy is underpinned by high standards of corporate governance enabling us to achieve responsible and sustainable growth.

Corporate governance

For the financial year ended 31 December 2016, the Group continued to monitor and develop our strong and comprehensive governance framework to reflect the size and ambition of the Group.

I am pleased to report that the Board and its Committees met their objectives during the year.

The Board has taken a number of key decisions during the year. The principal governance matters addressed in 2016 were:

- delivering on the Group's strategy for continued growth and leveraging investments made to deliver shareholder returns;
- carrying out a full review of the terms of reference of the Board and each of its Committees to ensure they operate effectively, have clear lines of responsibility and, where deemed appropriate, comply with the UK Corporate Governance Code;
- establishing a formal Management Committee (comprising each member of the Executive team) to assist the Chief Executive Officer in the performance of his duties; and
- the appointment of Paul Sheriff (our Chief Financial Officer) as an Executive Director of the Group.

In addition, on 11 October 2016, we announced that funds advised by private equity firms Cinven and CVC had agreed to acquire the Group from Värde Partners (the 'acquisition'). The acquisition completed on 26 January 2017. Both Cinven and CVC acknowledge that the Group has a strong governance framework and therefore no significant changes are expected as a result of the acquisition. However, there have been a number of changes to the composition of our Board:

- Lord John Eatwell, Alan Hughes, Rick Noel and Mary Phibbs resigned as Directors of the Group on 26 January 2017. We thank each of them for the contribution they have made; and
- Caspar Berendsen, Peter Rutland, Rory Neeson, Arron Wu, Maxim Crewe and Pev Hooper were appointed as Investor Directors of the Group on 26 January 2017. These individuals have significant experience serving on the boards of regulated companies, as well as in the specialty finance sector.

Both Cinven and CVC recognise the importance of a strong culture and governance in the provision of consumer credit and we look forward to working together to ensure the future success of the Group.

Sir Malcolm Williamson
Chairman and Non-Executive Director

Governance framework

During 2016, the commercial aspects of the Group's UK subsidiaries were managed by the Board of NewDay Group Ltd (the Board), a wholly owned subsidiary of NewDay Group Holdings S.à r.l., the Luxembourg-based parent company. The Managers of NewDay Group Holdings S.à r.l. were responsible for the matters relating to NewDay Group Holdings S.à r.l. and their report for the year is set out on page 54 of this report.

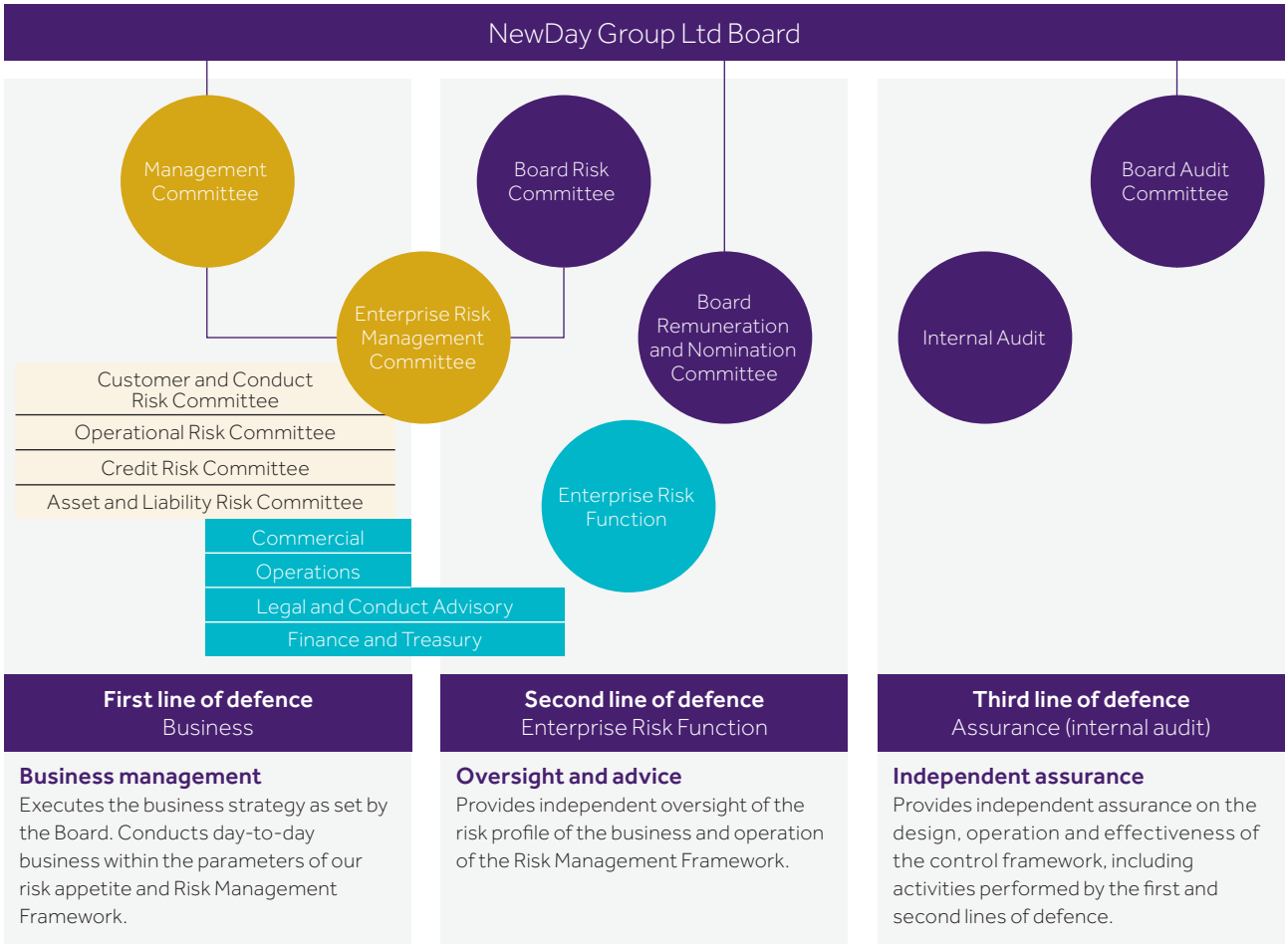
Following completion of the acquisition, Nemean BidCo Limited is the new parent company of the Group. The Board of Nemean HoldCo Limited is now responsible for oversight of the Group's activities and management of the Group's UK subsidiaries. The Managers of NewDay Group Holdings S.à r.l. remain responsible for matters relating to NewDay Group Holdings S.à r.l. and the Directors of Nemean BidCo Limited are responsible for matters relating to Nemean BidCo Limited.

Other than as set out on page 54, the governance and risk framework described in this report relate to the governance and risk framework established for the Group's UK subsidiaries and references to the 'Board', 'Group', 'NewDay' and 'Company' should be construed accordingly (where appropriate).

For more information go to p.54

The Board's role and composition are regularly reviewed to ensure that they are well defined and appropriate, and support the long-term development of the Group.

The day-to-day responsibility for managing the Group's business is delegated to the Chief Executive Officer who, supported by the Management Committee, implements the decisions and policies approved by the Board and deals with matters within the ordinary course of business. The Board, where deemed appropriate, adheres to the Financial Reporting Council's UK Corporate Governance Code, which can be found online at www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx.



The Board

The Board is responsible for the oversight of the Group's activities. In executing this responsibility the focus is on strategy, the long-term success of the Group and the Risk Management Framework that ensures appropriate practices and high standards of conduct. The Directors are apprised of, and debate and challenge, operational performance metrics, risk matters, customer and conduct-related matters, and receive reports on current strategic initiatives.

Scheduled meetings are occasionally supplemented with strategic planning sessions or project-specific Board meetings.

The Directors bring many skills and breadth of experience to the Board, including strategic experience, commercial knowledge, retail banking experience, UK regulatory knowledge, treasury and funding experience, risk management expertise, operational IT and accounting experience. This enables Board members to make informed decisions on key issues facing the business.

The Group maintains appropriate insurance cover in the unlikely event of legal action being brought against the Directors.

Role of the Board

The Board is responsible for creating a foundation for growth and attractive shareholder returns. It determines the vision, strategy and high-level policies of the Group, striking an appropriate balance between risk and reward, and for positive customer outcomes. It sets out the guidelines within which the business, including those parts of the business that are outsourced, is managed and controlled. It monitors business performance against agreed targets and the associated statements, as well as consistency with the Strategy to Execution Plan, which sets out management's key activities, within an agreed budget, to support the strategic objectives of the business. It also provides oversight and independent challenge, particularly with regard to the business's culture and values.

The Board executes these responsibilities through its own decision-making and by delegating responsibility to Board Committees and to the Chief Executive Officer, with support from the Management Committee. The Board has three sub-committees: the Audit Committee, the Risk Committee and the Remuneration and Nomination Committee. The roles and responsibilities of each committee are documented in Board-approved terms of reference. However, some matters are reserved for consideration by the Board. These include matters relating to: (i) strategy and management; (ii) structure, capital and funding; (iii) financial reporting and controls; (iv) internal controls and risk management; (v) material contracts; (vi) external communications requiring Board approval; (vii) changes to the Board's structure and remuneration and senior management arrangements; (viii) delegation of authority; and (ix) corporate governance matters.

Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are separate and clearly differentiated.

The Chairman is responsible for overseeing the Board and its meetings to ensure that: (i) the Board meets its responsibilities; (ii) effective communications are maintained with stakeholders; and (iii) Directors receive accurate, timely and clear information regarding the Group.

The Chief Executive Officer is responsible for overseeing the Group and the management of its senior executives, within parameters set by the Board.

Attendance at Board and Committee meetings

Member	Board meetings attended	Audit Committee meetings attended	Risk Committee meetings attended	Remuneration and Nomination Committee meetings attended
Sir Malcolm Williamson	11/11	n/a	n/a	3/3
James Corcoran	11/11	n/a	n/a	n/a
Paul Sheriff†	6/7	n/a	n/a	n/a
Lord John Eatwell*	10/11	5/7	5/6	n/a
Rupert Keeley	10/11	n/a	n/a	3/3
Alan Hughes*	10/11	6/7	6/6	n/a
Rick Noel*	9/11	n/a	n/a	3/3
Mary Phibbs*	9/11	6/7	5/6	n/a
Alison Reed	9/11	7/7	6/6	n/a

† Paul Sheriff (our Chief Financial Officer) was appointed as a member of the Board on 30 June 2016.

* Lord John Eatwell, Alan Hughes, Rick Noel and Mary Phibbs all resigned as Directors on 26 January 2017 following completion of the acquisition.

The Chief Executive Officer is also responsible for the development, recommendation and implementation of the Group's strategic plans, which are approved by the Board. The Management Committee supports the Chief Executive Officer in the performance of his duties.

Board balance and independence

During 2016, the majority of the Board was made up of Independent Non-Executive Directors with significant industry experience, whose views carry substantial weight in the Board's decision-making processes. These members were appointed on merit after a process involving external search consultants. They were considered to be free from any relationship with the Group's executive management that could compromise their independent judgement.

Following the acquisition, the majority of the Board consists of Investor Directors. These Investor Directors have significant experience serving on the boards of regulated companies, as well as in the specialty finance sector. In addition, three experienced Independent Non-Executive Directors remain on the Board.

Independent professional advice is available to the Directors at the Group's expense.

Training

Directors are provided with a structured induction programme upon appointment, followed by introductions to senior managers below Board level. Directors are able to attend relevant training courses upon joining the Board.

In order to continue to ensure that the members of the Board are up to date on the latest developments and maximise their effectiveness, training was delivered on the following topics in 2016: (i) strategic risk appetite; (ii) overview of unsecured personal loans; (iii) Approved Person responsibilities; and (iv) impairment provisioning methodology under IAS 39.

The long-standing inclusion of Independent Non-Executive Directors offers an external perspective, independent challenge and broad expertise in key areas of financial services and other related disciplines.

Supply of information

An online repository for Board materials is used to supply appropriate and good-quality information to the Board. All Directors have access to the services of the Company Secretary and other staff, as required.

Political donations

The Group did not incur any political expenditure or make any political donations to political parties, other political organisations, or any independent election candidates during the year.

Relations with Värde Partners, Cinven and CVC

Prior to the acquisition, Värde Partners had an Investor Director member on the Board who had 51% of the vote. Thus, Värde had control of the Board for voting purposes. However, the Board had six appropriately skilled and experienced Independent Non-Executive Directors and two Executive Directors (the Chief Executive Officer and Chief Financial Officer), providing visibility of any risk management or strategic issues relating to the Group and ensuring appropriate levels of independent challenge and oversight.

Following completion of the acquisition, Cinven and CVC each have three Investor Directors appointed to the Board and, acting together, control the Board for voting purposes. However, the Board has retained three experienced Independent Non-Executive Directors and two Executive Directors. In addition, certain matters relating to the management and operation of the Group require the consent of Cinven and CVC.

The Boards of NewDay Ltd and NewDay Cards Ltd, the main regulated entities within the Group, do not have Investor Directors and are comprised only of Executive Directors (together with, in the case of NewDay Ltd, the Independent Non-Executive Directors).

Prior to completion of the acquisition, engagement with Värde Partners was encouraged through attendance at Board meetings and, in months in which there was no Board meeting, specific investor meetings were arranged. As part of this process, representatives of Värde Partners received updates on regulatory developments in the UK and on key Group initiatives. Similar arrangements have been implemented with Cinven and CVC.

Directors' conflicts of interest

The Group has procedures in place for the effective management of conflicts of interest. The Articles of Association of relevant UK Group companies contain provisions to allow the Board to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law.

Internal control and risk management systems

The Board is responsible for monitoring and reviewing the Group's internal control system to maximise its effectiveness. The internal control environment is described on page 49.

For more information go to p.49

Share capital

During the year ended 31 December 2016, the Company did not acquire any of its own shares.

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1 Sir Malcolm Williamson

Chairman and Independent Non-Executive Director

Sir Malcolm Williamson is the former Group Chief Executive of Standard Chartered Bank and former President and CEO of Visa International. Knighted in 2007, Sir Malcolm was Chairman of Signet Jewelers, Clydesdale Bank/National Australia Group Europe and a Non-Executive Director of National Australia Bank until 2012. He also previously served as Chairman of CDC Group, Friends Life Group and Britannic Group and Deputy Chairman of Resolution. He has been a Non-Executive Director of JP Morgan Cazenove Holdings, G4S and the National Grid Group. He was also a member of the Board of Trustees for the International Business Leaders Forum.

Current external appointments include: Senior Independent Director at Aviva; Chairman of Cass Business School's Strategy and Development Board; the Governing Council of the Centre for the Study of Financial Innovation; and the Board of Trustees for Youth Business International.

2 Alison Reed

Senior Independent Non-Executive Director, Chairman of the Audit Committee and Risk Committee

Alison Reed has extensive business knowledge and experience from her previous senior business roles as Chief Financial Officer at Marks and Spencer Group plc and Group Finance Director at Standard Life plc (including Standard Life Assurance Company). Alison is a Non-Executive Director and Deputy Chairman of British Airways plc and a Member of Council and the Audit Committee of Exeter University. Alison was previously a Non-Executive Director at Darty plc and HSBC Bank plc. Alison is a member of the Institute of Chartered Accountants in England and Wales.

3 Rupert Keeley

Independent Non-Executive Director, Chairman of the Remuneration and Nomination Committee

Rupert Keeley is the General Manager for PayPal's businesses in Europe, Middle East & Africa (EMEA), a Senior Vice President of PayPal (Holdings) Inc. and Chief Executive Officer of the PayPal Europe bank. Rupert has more than 30 years of banking and payments experience and was formerly Visa Inc.'s Group Executive and President of the Asia Pacific and CEMEA regions, and a Section 16 Officer of the company. In his 11-year career with Visa, he held a number of management roles including President of Asia Pacific and Global Head of Strategy and Corporate Development. Prior to joining Visa in 1999, Rupert held a number of senior management positions with Standard Chartered plc based in London, Singapore and the Middle East. He started his career at Girobank plc in London. Rupert holds an MBA in Marketing from the City University Business School, London and a B.Sc. (Hons) in Management Sciences from the University of Manchester.

4 James Corcoran

Executive Director and Chief Executive Officer

James Corcoran has over 30 years of global financial services experience with large multi-national companies, such as American Express, Citibank, HBOS and IBM. James began his career in sales and marketing, moving into general management where he has held various senior executive positions over the last 20 years. He has run credit card businesses for First USA/Bank One and Amex and at HBOS his final role was CEO of the Distribution, Retail and Insurance Division. Prior to that, he was Head of their Retail Product business units. James joined NewDay as CEO in January 2009 from Washington Mutual in Seattle, where he was President of the Retail Banking Division.

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5 Paul Sheriff

Executive Director and Chief Financial Officer

Paul Sheriff has over 20 years of experience in financial services organisations spanning banking, asset management and insurance. Paul joined from Legatum, a private investment firm based in Dubai where he was CFO/COO for three years, having previously been CFO/COO of Record plc, a main market listed asset management business. Prior to this he was Group Finance Director at Arbuthnot Banking Group plc, a listed banking group, and Commercial Finance Director of the Prudential's UK and European business. Earlier in his career he spent five years in private equity and qualified as a Chartered Accountant with Arthur Andersen. He is a member of the Institute of Chartered Accountants in England and Wales.

6 Caspar Berendsen

Investor Director (Cinven), Member of the Risk Committee and Remuneration and Nomination Committee

Caspar Berendsen is a Partner at Cinven and leads the financial services sector team and the Benelux regional team. Prior to this, Caspar worked at J.P. Morgan in London advising Dutch and Belgian clients across a variety of sectors. Caspar holds an Ir degree in Mining and Petroleum Engineering from the Technical University Delft, the Netherlands and graduated from the Erasmus University, Rotterdam with a Drs in Business Administration.

Caspar led all Cinven investment in financial services investing, and has extensive experience of investing across various financial services industries. He has led and been responsible for investments in Guardian Financial Services (PRA/FCA regulated), Viridium Group (BaFin regulated), ERGO Italia (IVASS regulated), Avolon, Premium Credit Limited (FCA regulated) and Partnership Assurance plc (PRA/FCA regulated). Caspar has also been a member of the board and risk and audit committees for Partnership Assurance plc, Avolon, Guardian Financial Services, Viridium Group and ERGO Italia.

7 Peter Rutland

Investor Director (CVC Capital Partners), Member of the Risk Committee and Remuneration and Nomination Committee

Peter Rutland is a Partner at CVC and is Co-Head of CVC's Financial Services Group. Prior to joining CVC, he worked for Advent International since 2002. Prior to working at Advent International, Peter worked for Goldman Sachs in the Investment Banking Division. Peter holds an MA degree from the University of Cambridge and an MBA from INSEAD.

Peter leads CVC's financial services investing in Europe. He has led or been responsible for investments in Brit Insurance (leading Lloyd's insurance and reinsurance company), Avolon (global aircraft leasing company), Skrill (the second largest provider of online payment solutions in Europe) and Domestic & General (leading provider of product protection and warranty insurance in Europe). A number of these portfolio companies are also PRA/FCA regulated.

8 Rory Neeson

Investor Director (Cinven), Member of the Audit Committee

Rory Neeson is a Senior Principal at Cinven. Prior to joining Cinven, Rory was at Bain & Company for five years in London, Madrid and Stockholm where he worked on projects across a variety of sectors including financial services, retail, industrials and publishing. Rory holds an MA in Economics from Cambridge University.

Rory is an experienced investor in the financial services sector, having been involved in the acquisition and management of Guardian Financial Services (PRA/FCA regulated) and Viridium Group (BaFin regulated). Rory sat on the board of Guardian Financial Services and he is currently a member of the board for Viridium Group. Rory also has significant knowledge and understanding of the financial services industry having diligenced a number of businesses in the last five years.

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9 Arron Wu

Investor Director (CVC Capital Partners), Member of the Audit Committee

Arron Wu is a Director at CVC. Arron is a member of the CVC Financial Services Group. Prior to joining CVC, Arron worked at Oliver Wyman where he focused on financial services opportunities in Asia, Europe and the US for over three years. Arron holds a BSc degree in Economics from University College London.

Arron is an experienced investor in the financial services sector, having led and been responsible for investments in Brit Insurance (leading Lloyd's insurance and reinsurance company), Skrill (the second largest provider of online payment solutions in Europe), Domestic & General (leading provider of product protection and warranty insurance in Europe) and Pension Insurance Corporation (a leading pension annuity provider in the UK), which are all PRA/FCA regulated businesses. Arron also has significant knowledge and understanding of the UK credit card market having diligenced a number of businesses in the last five years.

10 Maxim Crewe

Investor Director (Cinven)

Maxim Crewe is a Partner at Cinven. Prior to joining Cinven, he worked at Citigroup where he was involved in corporate finance within the European Retail and Consumer Group. He holds an MA in Politics, Philosophy and Economics from Oxford University.

Maxim is an experienced investor in the financial services sector in the UK, having been involved in the acquisition and management of Partnership Assurance plc (PRA/FCA regulated), Avolon, Guardian Financial Services (PRA/FCA regulated), and Premium Credit Limited (FCA regulated). Maxim sat on the board of a number of these portfolio companies and he is currently a member of the board and risk and audit committees for Premium Credit Limited. Maxim also has significant knowledge and understanding of the financial services industry having diligenced a number of businesses in the last ten years and through the active role he played in managing each of these investments.

11 Robin Peveril Hooper

Investor Director (CVC Capital Partners)

Pev Hooper is a Partner at CVC and currently sits on the boards of Domestic & General, the RAC and SkyBet. He was also responsible for CVC's prior investments in the AA, Saga, Merlin Entertainments and Virgin Active, and has sat on the boards of these and other CVC portfolio companies. He joined CVC in 2003 after working in mergers and acquisitions at Citigroup and Schroders. He holds an MA degree from Oxford University.

Pev brings a range of UK consumer financial services experience from his time on the boards of FCA/PRA regulated businesses such as Domestic & General (leading provider of product protection and warranty insurance in Europe), Saga (a leading motor and home insurance provider for the over 50s), the RAC and the AA (both leading roadside recovery providers and insurance brokers).

Audit Committee

"During 2016, the Committee has continued to focus upon the material judgements inherent in the calculation of provisions for impairment of loans and advances to customers, PPI and the Consumer Credit Act, along with fair value unwind assumptions and the impact of these on the Financial Statements. In addition, the Committee has continued to monitor the delivery of the enhancements to the Financial Control Framework."

Chairman's overview

The Audit Committee has this year had a number of focal areas. The Committee continued to focus attention on areas of judgement and complexity, including the provisions for impairment of loans and advances to customers, PPI and the Consumer Credit Act, along with fair value unwind assumptions, and assessed the impact of these on the Financial Statements. The Committee oversaw the enhancements that were made to the FCF introduced in 2014. The FCF was created to align the scale of the control environment with the significantly increased size and complexity of the business. In particular, the Committee focused on assessing the control environments in place around treasury and tax and reviewed the effectiveness of cyber security and the security of customer data. The Committee also worked with internal audit to further enhance the internal audit programme and evaluated management's response to findings from both internal and external audit. In addition, the Committee oversaw both the recruitment of the Director of Internal Audit and the work undertaken to commence building an in-house internal audit function.

Following the result of the UK referendum on 23 June 2016, the Committee also assessed the potential impacts to the Group's business as a result of the UK leaving the EU.

Alison Reed
Senior Independent Non-Executive Director, Chairman of the Audit Committee

Committee composition, skills and experience

The diverse backgrounds of the Committee members and their combined skills and experience enable them to fulfil the Committee's remit, as set out in the terms of reference, which are reviewed annually.

The Committee acts independently from the Executive team to ensure shareholders' interests are protected in relation to financial reporting and internal control.

All members of the Committee are Independent Non-Executive Directors or Investor Directors with a range of financial, risk and business experience.

The internal and external auditors attend all meetings and meet with the Committee in private.

Although not members of the Committee, the Chairman, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Director of Internal Audit and Company Secretary attend each meeting.

Other Directors are invited as and when required, to ensure that the Committee has all the information it requires to operate effectively.

Roles and responsibilities

The main roles and responsibilities, as set out in the terms of reference, are:

- to monitor the integrity of the Financial Statements, review significant financial reporting issues and assess the judgements made;
- to review the financial reports for publication and to ensure compliance with accounting policies and standards;
- to review the Group's internal financial control and risk management systems and to review risk exposures and steps taken to monitor and mitigate them;
- to monitor and review the effectiveness of the internal audit function;
- to make recommendations to the Board in relation to the appointment, remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence, objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement an approach on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- to review the findings of the external audit;
- to report the outcome of meetings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken;
- to monitor management's response to the findings and recommendations of internal and external audit;
- to review the Group's compliance with legal and regulatory requirements;
- to monitor, and challenge where appropriate, the whistleblowing arrangements as set out in the whistleblowing policy; and
- to review the Group's procedures for detecting fraud, including the systems and controls for the prevention of bribery.

Key activities of the Audit Committee in 2016

- Reviewed the Group's 2016 Annual Report and Financial Statements to ensure that, taken as a whole, it is fair, balanced and understandable and advised the Board to that effect.
- Reviewed and challenged the appropriateness of the Group's accounting policies, critical accounting estimates and key judgements. This included discussions with management on provisioning methodology, most notably in relation to the impairment of loans and advances to customers, PPI and the Consumer Credit Act, along with fair value unwind assumptions. Particular scrutiny has been given to recent PPI developments on an end date for claims to be made as well as guidance on redress calculation methodology from the FCA.
- Discussed the outcome of the UK's referendum to leave the EU and assessed the potential impacts on the Group.
- Monitored developments with respect to the Group's acquisition by funds advised by Cinven and CVC.
- Monitored the ongoing recruitment of permanent employees to replace contractors within the finance function – an exercise which reached its conclusion during the year. This has strengthened the function, ensuring continued control.
- Oversaw the continued development of the FCF function.
- Assessed the controls in treasury, particularly relating to the securitisation programme and related securitisation reporting requirements. Kept informed of issuances of further debt by the Group.
- Evaluated the controls around tax to ensure they remain appropriate for the increasing complexity of the business.
- Considered regular updates on the current business risks surrounding information and data security and reviewed the effectiveness of controls in place around cyber security and security of customer data.
- Oversaw the relationship with the internal and external auditor. Considered the terms of engagement, remuneration and effectiveness of both internal and external audit functions.
- Evaluated the reports and findings of the internal and external auditors, including management's response to any recommendations.
- Monitored regular updates on key business risks, including conduct, regulatory, legal, data, fraud and whistleblowing.
- Considered and challenged management forecasts of Group cash flows and net debt, as well as financing facilities available to the Group. Following this review, the Committee confirmed the appropriateness of the going concern basis of accounting in the Financial Statements.

Financial reporting

The main areas of judgement considered by the Audit Committee in relation to the Financial Statements for the year ended 31 December 2016 are set out below. These issues were closely examined with the external auditor during the year.

Key issues, judgements and estimates in financial reporting	Audit Committee's review and conclusions
Impairment on loans and advances to customers	
Impairment and credit risk remains a significant area of risk and audit focus in the Financial Statements as a result of the various assumptions and judgements that are necessary. The loan loss impairment provisions recorded by the Group as at 31 December 2016 were £93m (2015: £72m) for Own-brand customers and £12m (2015: £13m) for Co-brand customers.	The Audit Committee considered the key assumptions and judgements inherent in the determination of the impairment provision. The Committee challenged the assumptions and considered the rationale and impact of variations to each of the key assumptions. The Committee was satisfied that the impairment provisions were appropriate.
PPI provision	
This provision relates to redress to cardholders in respect of matters relating to the sale of PPI. As at 31 December 2016, the Group recorded a PPI provision of £56m (2015: £50m). The £19m charge to the consolidated income statement in the year was driven by the expected increase in claim rates across the industry following the consultation paper issued by the FCA in August 2016 ('CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation'). This consultation paper included a proposed deadline for complaints about mis-selling and other matters related to the sale of PPI to be made within two years of the relevant rules coming into force, as well as proposing that redress amounts payable to consumers following the Supreme Court's decision in *Plevin v Paragon Personal Finance Ltd* should include an element of profit share as well as commission. The FCA published its policy statement 'PS17/3: Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance' on 2 March 2017.	Various inputs and assumptions are used in the calculation of the provision for PPI. The assumptions are based on the historical profile of the Group's cardholders, the future expectations of the Group based on past customer behaviour and latest regulatory developments. The Audit Committee challenged and scrutinised the judgements included in the provision. The Committee was presented with evidence to support the assumptions and considered and challenged the various factors that affect the provision for PPI, including claims experience against existing provisions, the projections underlying the estimates, and the potential expected range of future claims. The Audit Committee was satisfied that the provision was appropriate given the information available.
Fair value unwind	
Fair value adjustments to loans and advances to customers and subsequent unwinds arise in the Group due to various past acquisitions and restructures. The unwind profile is assessed annually to determine if, based on the actual observed portfolio metrics, the amortisation of the premium or discount for the year needs to be accelerated or reduced compared with the profile assigned to each portfolio as part of the purchase price allocation exercise at each acquisition point. Fair value adjustments of £9m have been recorded within loans and advances to customers as at 31 December 2016 (2015: £15m).	The Audit Committee was presented with evidence to support the key inputs used in the fair value unwind profile. The Committee challenged the assumptions used and was satisfied that the remaining fair value balances at 31 December 2016 were appropriate.

Key issues, judgements and estimates in financial reporting	Audit Committee's review and conclusions
Consumer Credit Act provision	
This provision relates to remediation to customers as a result of failing to fully comply with the technical requirements of the Consumer Credit Act 1974 (CCA). The Group calculated the provision by analysing the accounts impacted and computing the total amount of interest and fees charged on these accounts during the period of non-compliance. As at 31 December 2016, the Group recorded a provision of £1m (2015: £3m) for the payment of CCA-related claims to its customers. The Group concluded that for £1m (2015: £1m) of this provision, in relation to purchased accounts, counterparties are contractually responsible for reimbursing the Group for any remediated amounts to customers; thus, the Group recorded a corresponding asset for this amount.	The Audit Committee considered and challenged the key assumptions and judgements included in the determination of the CCA provision. The Committee was satisfied that the Group was appropriately provided for in relation to the CCA.

The disclosures relating to significant accounting judgements, estimates and assumptions are set out in note 2.3.

Internal audit

The Committee endorsed the internal audit plans for 2016 and 2017 and reviewed all reports from the internal audit function and ensured management took appropriate action on issues arising from these reports.

The internal audit function reports to the Committee to ensure independence from the Group's management. The Committee assesses the performance of the internal audit function on an ongoing basis to ensure it is satisfied with the function's effectiveness.

Following the appointment of the Director of Internal Audit during the year, the Group is developing an in-house internal audit function which will replace the current outsourced model with Deloitte LLP. However, support will continue to be provided by third party consultants where specialist knowledge is required.

External audit

The Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor. The external auditor is not permitted to perform any work which might affect their objectivity and independence or create a conflict of interest with respect to the Group. There are internal procedures in place to determine the use of the external auditor for non-audit services. The amount paid to the external auditor is disclosed in note 8.

Following appointment in 2012, KPMG LLP is the auditor of the UK companies, whilst KPMG Luxembourg, Société coopérative is the auditor of the Company (NewDay Group Holdings S.à r.l.). The Committee reviewed and approved the annual audit plan, including the methodology and risk identification processes used, and reviewed the findings of the external audit including key judgements and the level of challenge provided. The Committee assesses the performance of the external auditor on an ongoing basis to ensure it is satisfied with the quality of the services provided, which includes consideration of the experience and capabilities of the auditor, the delivery of its audit work in accordance with the agreed plan and the quality of its reports and communications to the Committee.

The Committee has kept under review regulatory and legislative developments around the tenure of auditor. Having reviewed this, along with the assessment of the effectiveness of the external auditor, the Committee has recommended to the Board that KPMG LLP be re-appointed as external auditor for the financial year ending 31 December 2017.

Governance

The performance of the Committee is reviewed annually. The results show that the Committee continues to work effectively.

Internal control environment

The Board is responsible for the Group's internal control environment. The system of internal controls is designed to mitigate the risk of material misstatements in the financial records of the Group and to facilitate the business in achieving its objectives. The internal control environment only provides reasonable, rather than absolute, assurance against material misstatement, loss or fraud to the Group.

The Board confirms that a system of internal controls for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year ended 31 December 2016, and up to the date of the approval of these consolidated Financial Statements.

The Board, through the Audit and Risk Committees, has reviewed the effectiveness of the system of internal controls and is satisfied with the controls operated over financial reporting and associated business activities such that there was no material loss, contingency or uncertainty to the Group requiring disclosure in the consolidated Financial Statements.

Risk Committee

"The Risk Committee oversaw the continued embedding of the Risk Management Framework whilst monitoring the Group's risk profile, ensuring business operations remained within risk appetite."

Chairman's overview

During 2016, the Group obtained authorisation from the FCA to carry out consumer credit activities. At the same time the pace of change in the business continued to accelerate. The Committee focused particularly on the embedding of the Risk Management Framework and its ongoing appropriateness in light of the business's strategy and the evolving regulatory landscape.

The Committee monitored the Group's risk profile on behalf of the Board to ensure that business operations remained within the parameters of the Board's agreed risk appetite. The Committee also oversaw the ongoing management and mitigation of risks arising in the business, including major projects and business initiatives. In order to ensure that oversight activity kept pace with the business as it grew and evolved, resources in the second line of defence were increased.

The Committee also monitored the Group's risk management practices to ensure that they continued to support the Group's Manifesto-led approach to good customer outcomes and responsibly meeting customer needs. Throughout the year the Group took part in a number of thematic reviews as well as the Credit Card Market Study conducted by the FCA, and will continue to monitor and manage regulatory requirements to ensure compliance with the evolving regulatory landscape, whilst monitoring the horizon for emerging risks.

We remain committed to enhancing our understanding and management of the key risks facing the Group. The Committee seeks to ensure appropriate risk resources are in place and we encourage the continued focus on the Risk Management Framework.

Alison Reed
Senior Independent Non-Executive Director, Chairman of the Risk Committee

Roles and responsibilities

The main roles and responsibilities, as set out in the terms of reference, are:

- to oversee the Risk Management Framework of the Group and challenge the processes and methodologies used for identifying, measuring, managing, monitoring and reporting all key risks facing the business;
- to recommend to the Board how to improve the Risk Management Framework including the monitoring of risk exposures, risk appetite, capital and liquidity and any significant risk issues;
- to monitor the effectiveness of the Group's Conduct Risk Management Framework, procedures to reduce financial crime, conduct risk oversight and findings from key business committees;
- to review the output, effectiveness and resources of the Enterprise Risk Function;
- to review, monitor and report to the Board the Group's interactions with regulators, the effectiveness of regulatory reporting and action on any significant regulatory issues;
- to review and monitor the implementation of risk or compliance-related policies, their suitability in terms of compliance, and the necessary actions taken as a result of policy breaches; and
- to oversee, review, report and make associated recommendations to the Board on risk appetite, risk management culture, training and competence throughout the Group.

Key activities of the Risk Committee in 2016

- Challenged the effectiveness of risk management throughout the business during another significant period of transformation and growth with a particular focus on credit risk and conduct risk.
- Oversaw the annual review of risk appetite.
- Reviewed and challenged regular reports on the management and mitigation of risks and issues in the business.
- Oversaw the development of a risk capability and culture programme that will further reinforce the importance of risk management.
- Challenged management on the resource model for the second line of defence.
- Reviewed the management and mitigation of risks in key strategic project implementations.
- Examined deep dive reviews in respect of: the potential impact of the EU referendum result on the Group; vulnerable customers; collections performance; the outcomes of the Credit Card Market Study; an in-depth review of default fees to ensure that customers continued to be treated fairly; and conduct risk control testing.
- Oversaw the reporting of key risks to the Board via the refreshed principal risk radars.
- Oversaw the review of Board-level policies in line with policy governance.
- Reviewed risk-focused updates on existing and proposed new products.

Governance

The performance of the Committee is reviewed annually. The results show that the Committee continues to work effectively.

Remuneration and Nomination Committee

"The Remuneration and Nomination Committee monitors business performance against Board-set objectives and provides appropriate reward for colleagues, where merited."

Chairman's overview

The Remuneration and Nomination Committee recommends the Group's remuneration policy to the Board and sets the overall direction of staff remuneration in accordance with the remuneration policy. Accordingly, the Committee will monitor business performance against Board-set objectives and provide appropriate reward for colleagues, where merited.

The Remuneration and Nomination Committee is also empowered by the Board to review and recommend changes to the composition of the Board or its committees whilst ensuring the continuity of oversight and management from diverse, skilled and appropriate individuals. In this role, the Committee sets the procedure for the appointment of new Directors and selects appropriate candidates to meet its desired Board composition.

The Committee seeks to anticipate and properly manage future changes in the Board's membership. This ensures that, in the event of unforeseen changes, the management and oversight of the Group's strategy will not be disrupted. In addition, the Committee will undertake an annual review of the succession arrangements for Directors to ensure that the composition of the Board and other senior executives of the Group have the right balance of skills, knowledge and experience required taking into account the challenges and opportunities facing the Group.

Rupert Keeley
Independent Non-Executive Director, Chairman of the Remuneration and Nomination Committee

Roles and responsibilities

The main roles and responsibilities, as set out in the terms of reference, are:

- recommending to the Board a suitable remuneration policy and reviewing its ongoing appropriateness;
- setting the overall direction of staff remuneration in accordance with the remuneration policy, including individual remuneration for all Executive Directors, the Chairman and members of the Executive team (including pension rights and any compensation payments);
- reviewing the structure, size and composition, (including skills, knowledge, experience and diversity) of the Board and overseeing succession planning; and
- identifying and recommending for the approval of the Board, candidates for appointment to the Board and potential revocations of any such appointments.

Key activities of the Remuneration and Nomination Committee in 2016

- The review and evaluation of Executive and senior management's performance.
- Set business performance objectives for 2017.
- Reviewed succession plans for senior management positions across the Group.
- Approved the appointment of Paul Sheriff (our Chief Financial Officer) as an Executive Director.
- Reviewed the remuneration strategy across the Group, delivering proposals for changes to the Board.
- Approved an all colleague bonus plan payable to employees in connection with the completion of the acquisition of the Group by funds advised by Cinven and CVC.

Board appointments

Paul Sheriff (our Chief Financial Officer) was appointed as a member of the Board on 30 June 2016. The Chief Executive Officer, Senior Independent Non-Executive Director and Chief People Officer led a robust and transparent process for identifying and nominating candidates. This included:

- preparing a description of the role and candidate profile for the appointment;
- selecting and engaging an appropriate search consultancy; and
- interviewing a shortlist of candidates and recommending Paul's appointment to the Committee.

Following approval by the Committee, Paul's appointment was submitted to the Board for final approval.

Governance

The performance of the Committee is reviewed annually. The results show that the Committee continues to work effectively.

The Managers of the Company present their report and Financial Statements for the year ended 31 December 2016. The Group complied with regulatory requirements during the period.

Group business review, results and dividends

The KPIs and financial review on pages 12 to 19 contains highlights of the financial performance, future development, dividends and capital structure.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, as well as the overall financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described in the KPIs and financial review on pages 12 to 19 and within this report. In addition, the notes to the Financial Statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The performance of the Group is driven by the Own-brand and Co-brand receivables portfolios. The Group depends on the availability of external borrowing to finance its existing customer balances as well as future growth. Although uncertainties remain around the strength of the overall economy following the UK's decision to leave the EU, the Managers have considered the impact to the Group and feel the Group is well placed to meet its strategic objectives. The Group continues to note the increased growth in credit card market balances and general usage of credit cards within the UK. The Managers believe that the Group's existing plans and projections of business performance will be sufficient to allow the Group to continue to meet all of its current obligations, including financial covenants and cash requirements, for the foreseeable future.

The Group's forecasts are based on a number of judgements and assumptions; the Managers have considered the consequential risks facing the Group during the foreseeable future and the mitigating factors within their direct control and are satisfied that these factors are more than sufficient to offset and remedy the potential risks, such that it is appropriate to prepare these Financial Statements on a going concern basis.

The Group has sufficient financial resources and the Managers expect that it will continue to grow its assets and increase profitability in the chosen financial markets in the coming years. As a consequence, the Managers believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Principal risks and management

The principal risks and management thereof are described on pages 27 to 31.

Research and development activities

The Group does not undertake formal research and development activities, although we do invest in the development of platforms and products.

Managers

The Managers who held office during the period under review were as follows:

- Jean Roger Lemaire;
- Teunis Christiaan Akkerman; and
- Krzysztof Drozd.

On 26 January 2017, the Group was acquired by funds advised by Cinven and CVC. As a result, with effect from 26 January 2017, each of the Managers referred to above resigned and the individuals listed below were appointed as Managers:

- Emanuela Brero;
- Stella Le Cras;
- Daniele Arendt-Michels; and
- Gautier Laurent.

Auditor and disclosure of information to auditor

So far as the Managers are aware, there is no audit information needed by the Company's auditor in connection with preparing their report of which the Company's auditor is unaware and the Managers have taken all steps necessary in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of Managers' responsibilities in relation to the consolidated Financial Statements

The Managers of NewDay Group Holdings S.à r.l. have accepted responsibility for the preparation of these consolidated Financial Statements for the year ended 31 December 2016 which are intended by them to give a true and fair view of the state of affairs of the Company and its subsidiary undertakings (the Group) and of the profit or loss for that period. They have decided to prepare the consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

In preparing these consolidated Financial Statements, the Managers have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepared the consolidated Financial Statements on the going concern basis as they believe that the Company will continue in business.

The Managers have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Emanuela Brero
Manager

Stella Le Cras
Manager

Daniele Arendt-Michels
Manager

Gautier Laurent
Manager

3 March 2017

Strong financial performance

Record profit, driven by strong receivables growth, resulted in a significant improvement in return on equity.

We established two new funding structures and secured additional facilities totalling over £460m to complement our diversified debt funding structure.

Continued strong capital base and liquidity position facilitated the return of £60m to shareholders.

Report of the Réviseur d'Entreprises agréé

To the Unitholders of
NewDay Group Holdings S.à r.l.
4, rue Albert Borschette
L-1246 Luxembourg, Grand Duchy of Luxembourg

Report on the consolidated Financial Statements
We have audited the accompanying consolidated Financial Statements of NewDay Group Holdings S.à r.l., which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Board of Managers' responsibility for the consolidated Financial Statements
The Board of Managers is responsible for the preparation and fair presentation of these consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé
Our responsibility is to express an opinion on these consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated Financial Statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managers, as well as evaluating the overall presentation of the consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated Financial Statements give a true and fair view of the consolidated financial position of NewDay Group Holdings S.à r.l. as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information
The Board of Managers is responsible for the other information. The other information comprises the information included in the strategic report, governance and management report but does not include the consolidated Financial Statements and our report of Réviseur d'Entreprises agréé thereon.

Our opinion on the consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements
The Management report is consistent with the consolidated Financial Statements and has been prepared in accordance with the applicable legal requirements.

M. Weber, Associate Partner
KPMG Luxembourg
Société coopérative, Cabinet de révision agréé
Luxembourg

3 March 2017

Consolidated income statement and consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 *restated*[1] £m
Interest and similar income	4	**399.0**	307.4
Interest and similar expense	5	**(30.6)**	(29.7)
Net interest income		**368.4**	277.7
Fee and commission income	6	**75.0**	74.2
Impairment losses on loans and advances to customers	11	**(156.8)**	(115.7)
Net operating income		**286.6**	236.2
Personnel expense	7	**(60.5)**	(48.3)
Other operating expenses	8	**(152.7)**	(163.4)
Fair value gain on derivatives		**–**	0.5
Total operating expenses		**(213.2)**	(211.2)
Profit before tax		**73.4**	25.0
Tax expense	9	**(1.7)**	(0.9)
Profit after tax		**71.7**	24.1
Other comprehensive income		**–**	–
Total comprehensive income		**71.7**	24.1

[1] In 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives have been amended throughout the Financial Statements to conform with current year presentation. For further details see note 2.2 (7)(i).

The profit for the year is from continuing operations.

The notes on pages 61 to 92 form an integral part of these statutory consolidated Financial Statements.

Consolidated balance sheet

as at 31 December 2016

	Note	**As at 31 December 2016 £m**	As at 31 December 2015 £m
Assets			
Loans and advances to banks	10	**168.6**	106.8
Loans and advances to customers	11	**1,760.0**	1,409.4
Current tax assets		**0.8**	0.4
Other assets	12	**54.0**	29.3
Equity investments	13	**13.3**	–
Property and equipment	14	**6.0**	6.0
Intangible assets	15	**4.0**	–
Total assets		**2,006.7**	1,551.9
Liabilities			
Debt issued and other borrowed funds	16	**1,561.2**	1,169.8
Current tax liabilities		**1.2**	0.4
Deferred tax liabilities		**–**	0.1
Other liabilities	17	**76.9**	48.9
Provisions	18	**68.6**	58.9
Total liabilities		**1,707.9**	1,278.1
Equity attributable to owners of the Company			
Share capital and share premium	19	**2.0**	2.0
Capital contribution	19	**13.3**	–
Interest Free Preferred Equity Certificates (IPECs)	19	**68.5**	68.5
Tracking Preferred Equity Certificates (TPECs)	19	**161.8**	161.8
Retained earnings		**53.2**	41.5
Total equity		**298.8**	273.8
Total liabilities and equity		**2,006.7**	1,551.9

The notes on pages 61 to 92 form an integral part of these statutory consolidated Financial Statements.

RCS number: B164614

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital and share premium £m	**Capital contribution £m**	**IPECs £m**	**TPECs £m**	**Retained earnings £m**	**Total equity £m**
At 1 January 2016	**2.0**	**–**	**68.5**	**161.8**	**41.5**	**273.8**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**71.7**	**71.7**
Transactions with owners:						
Return paid on TPECs	**–**	**–**	**–**	**–**	**(60.0)**	**(60.0)**
Capital contribution	**–**	**13.3**	**–**	**–**	**–**	**13.3**
At 31 December 2016	**2.0**	**13.3**	**68.5**	**161.8**	**53.2**	**298.8**

	Share capital and share premium £m	Capital contribution £m	IPECs £m	TPECs £m	Retained earnings £m	Total equity £m
At 1 January 2015	2.0	–	68.5	161.8	57.8	290.1
Total comprehensive income for the year	–	–	–	–	24.1	24.1
Transactions with owners:						
Return paid on TPECs	–	–	–	–	(40.0)	(40.0)
Interest paid on TPECs	–	–	–	–	(0.4)	(0.4)
At 31 December 2015	2.0	–	68.5	161.8	41.5	273.8

The notes on pages 61 to 92 form an integral part of these statutory consolidated Financial Statements.

Consolidated statement of cash flows

for the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Operating activities			
Profit before tax		**73.4**	25.0
Reconciliation of profit before tax to net cash used in operating activities:			
Interest and similar expense	5	**30.6**	29.7
Depreciation of property and equipment	14	**1.3**	1.5
Loss on disposal of property and equipment	14	**–**	0.3
Amortisation of intangible assets	15	**0.1**	–
Fair value unwind	4	**(5.8)**	(4.8)
Impairment losses on loans and advances to customers	11	**156.8**	115.7
Changes in operating assets and liabilities:			
Increase in loans and advances to banks repayable in more than one year	10	**(6.7)**	(20.0)
Increase in loans and advances to customers	11	**(501.6)**	(275.6)
Increase in other assets	12	**(24.7)**	(15.2)
Decrease in derivative liabilities		**–**	(0.5)
Increase/(decrease) in other liabilities	17	**27.6**	(10.7)
Increase in provisions	18	**9.7**	33.8
Interest paid		**(31.2)**	(28.7)
Tax paid		**(1.4)**	(0.8)
Net cash used in operating activities		**(271.9)**	(150.3)
Cash flows from investing activities			
Purchases of property and equipment	14	**(1.3)**	(2.5)
Investment in intangible assets	15	**(4.1)**	–
Net cash used in investing activities		**(5.4)**	(2.5)
Cash flows from financing activities			
Proceeds from debt issued and other borrowed funds		**706.2**	1,074.3
Repayment of debt issued and other borrowed funds		**(313.8)**	(880.3)
Return paid on TPECs	19	**(60.0)**	(40.0)
Interest paid on TPECs	19	**–**	(0.4)
Net cash generated from financing activities		**332.4**	153.6
Net increase in cash and cash equivalents		**55.1**	0.8
Cash and cash equivalents at beginning of the year		**73.7**	72.9
Cash and cash equivalents at end of the year	10	**128.8**	73.7

The notes on pages 61 to 92 form an integral part of these statutory consolidated Financial Statements.

1. Corporate information

NewDay Group Holdings S.à r.l. (the Company) was incorporated as a 'Société à responsabilité limitée' under the laws of the Grand-Duchy of Luxembourg on 20 October 2011 for an unlimited duration. Its registered office is at 4, rue Albert Borschette L-1246 Luxembourg, Grand Duchy of Luxembourg. Invicta EuroCard Services L.P., an exempted limited partnership registered under the laws of the Cayman Islands, was the sole shareholder of the Company until 26 January 2017. On this date, the Group was acquired and the sole shareholder of the Company became Nemean BidCo Limited, a company registered in Jersey.

The Company, together with its subsidiaries (the Group), provides products and services to its customers within the Near-prime and Co-brand credit markets in the UK.

The statutory consolidated Financial Statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Managers on 3 March 2017.

2. Accounting policies

2.1 Basis of preparation

Statement of compliance

The statutory consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

The statutory consolidated Financial Statements of the Group have been prepared on an amortised cost basis, except for derivative financial instruments and loans with related parties which have been measured at fair value.

Going concern

At 3 March 2017, the Managers are satisfied that the Group has the resources necessary to continue in business for the foreseeable future. Management forecast the performance of the Group and undertake various stress scenarios to assess the impact on profitability, cash flows, the balance sheet and compliance with covenants. This information is formally presented to the Board of NewDay Group Ltd (the Board) for review, and has been approved by the Board, along with consideration of the potential impact of contingent liabilities on the Group. Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the statutory consolidated Financial Statements continue to be prepared on the going concern basis as outlined in the statement of Managers' responsibilities.

Presentation of the consolidated Financial Statements

The statutory consolidated Financial Statements are presented in Sterling (£) and all values are rounded to the nearest £0.1m, except where otherwise indicated. The Group presents its consolidated balance sheet in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 22.

Financial assets and financial liabilities are offset with the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by an accounting standard or interpretation, and is specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The statutory consolidated Financial Statements comprise the Financial Statements of the Group and its subsidiaries (together with certain structured entities (SEs) that the Group consolidates) as at 31 December 2016. The subsidiaries and SEs are disclosed in note 24. The Financial Statements of the Group's subsidiaries (including SEs that the Group consolidates) are prepared for the same reporting period as the parent company using consistent accounting policies.

All intra-Group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are fully consolidated from the date that control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity, has the exposure or rights to the variable returns from the involvement with the entity, and is able to use its power to affect the amount of returns for the Group.

2. Accounting policies continued

2.1 Basis of preparation continued

Basis of consolidation continued

SEs are fully consolidated based on the power of the Group to direct relevant activities, and its exposure to the variable returns of the SE. In assessing whether the Group controls an SE, judgement is exercised to determine the following: whether the activities of the SE are being conducted on behalf of the Group to obtain benefits from the SE's operation; whether the Group has the decision-making powers to control or to obtain control of the SE or its assets; whether the Group is exposed to the variable returns from the SE's activities; and whether the Group is able to use its power to affect the amount of returns. The Group's involvement with SEs is detailed in note 25.

2.2 Summary of significant accounting policies

(1) Foreign currency translation

The statutory consolidated Financial Statements are presented in Sterling (£) which is the presentational currency of the Group. The functional currency of the Group and all of its subsidiaries is Sterling (£). The Group transacts mainly in Sterling. Transactions that are not Sterling denominated are recorded at the rate of exchange ruling at the date of the transaction.

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

The Group initially recognises loans and advances to customers on the date on which they are originated or purchased. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention on acquiring them. All financial instruments are measured initially at their fair value adjusted for transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit and loss.

(iii) Derivatives recorded at fair value through profit and loss

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Interest is recognised on a net accruals basis through interest and similar expense in the consolidated income statement. No derivatives were held as at 31 December 2016 (31 December 2015: none).

(iv) Loans and advances to banks

Loans and advances to banks, as referred to in the consolidated balance sheet, comprise cash and cash equivalents, non-restricted current accounts, restricted cash as detailed in note 10 and amounts due on demand or with an original maturity of three months or less.

(v) Loans and advances to customers

Financial instruments which are disclosed as loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, they are subsequently measured at amortised cost using the effective interest rate (EIR) method, less allowance for impairment. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument, but not future credit losses. The interest income calculated using this policy is included in interest and similar income in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in impairment losses on loans and advances to customers.

(vi) Equity investments

The Group holds investments in certain partnership interests that are classified as at fair value through profit or loss (FVTPL) financial assets, as defined in IAS 39 'Financial Instruments: Recognition and Measurement'. These investments are stated at fair value at the end of each reporting period. The financial assets are classified as FVTPL because they were acquired principally for sale in the near term. Changes in the carrying value of FVTPL financial assets are recognised in the consolidated income statement in the period in which they arise. Dividends on FVTPL equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established. No dividend income was recognised in the consolidated income statement in the year (2015: £nil).

(vii) Debt issued and other borrowed funds

Financial liabilities that are not designated at fair value through profit and loss are classified as liabilities under debt issued and other borrowed funds, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset.

After initial measurement, debt issued and other borrowed funds are measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on issue and directly attributable, incremental issue costs that are an integral part of the EIR.

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - the Group has transferred substantially all the risks and rewards of the asset; or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. For example, the Group has entered into asset-backed securitisations to fund certain loans and advances to customers. In cases where the securitisation vehicles are funded by the issue of debt, on terms whereby the majority of the risks and rewards of the portfolio of the securitised lending are retained by the Group, these loans and advances to customers continue to be recognised in the Group's consolidated balance sheet, together with a corresponding liability for the funding.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset but it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement determined by the extent to which it is exposed to changes in the value of the transferred asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement.

(4) Determination of fair value

For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

(5) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

See note 2.3 for further details on the significant accounting judgements, estimates and assumptions that affect the impairment provision.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group assesses impairment on a collective basis for all financial assets that are not individually significant.

The amount of the loss is measured as the difference between the assets' carrying value and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in impairment losses on loans and advances to customers in the consolidated income statement.

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(5) Impairment of financial assets continued

(i) Financial assets carried at amortised cost continued

Interest income continues to be accrued on the reduced carrying value and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income in the consolidated income statement.

Loans, together with the associated allowance, are charged-off after 180 days of delinquency. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a charged-off loan is later recovered, the recovery is credited to impairment losses on loans and advances to customers in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If the Group has acquired loans and advances to customers, the discount rate for measuring any impairment loss is the new EIR determined at the acquisition date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system which considers credit risk characteristics such as portfolio, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect changes in related observable data from period to period (such as changes in unemployment rates, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed quarterly to reduce any differences between loss estimates and actual loss experience.

See note 11 and note 21.2 for details of impairment losses on financial assets carried at amortised cost.

(ii) Renegotiated loans and advances to customers

Where possible, the Group seeks to restructure loans before they reach charge-off based on customers' ability to make minimum monthly payments on their outstanding balances. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using a provision rate consistent with other restructured loans (separately from the portfolio of non-renegotiated loans) discounted at the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to collective impairment assessments.

(6) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases that do not transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which it is incurred. A lease is classified at the inception date as a finance lease or an operating lease.

Dilapidations are provided for on leasehold properties where the terms of the lease require the tenant to make good any changes made to the property at the end of the lease period. The provision is discounted over the remaining period of the lease at the risk-free rate. The discount unwind is recognised in other operating expenses in the consolidated income statement.

(7) Recognition of income and expenses

Income and expenses are recognised to the extent that it is probable that the economic benefits will flow to or from the Group and the amount can be reliably measured. The following specific recognition criteria must also be met before income or expenses are recognised.

(i) Interest and similar income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the EIR. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes certain fees or directly attributable issue costs, but not future credit losses.

The carrying value of the financial asset or financial liability is adjusted if the Group revises its estimates of expected payments or receipts. The adjusted carrying value is calculated based on the original EIR and the change in carrying value is recorded as interest and similar income for financial assets and interest and similar expense for financial liabilities in the consolidated income statement.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

A number of the loans and advances to customers have been acquired historically and the carrying value of these assets on initial recognition was the fair value of these receivable balances. The fair value adjustment applied to these receivable balances is amortised into interest and similar income in the consolidated income statement using the EIR method.

As noted on the consolidated income statement, in 2016 the presentation of interest income and account origination fees and costs was revised. Accordingly, the 2015 comparatives have been amended throughout the Financial Statements to conform with current year presentation. The previously reported and restated amounts are shown below:

	Year ended 31 December 2015 *as reported* £m	Reclassification £m	Year ended 31 December 2015 *restated* £m
Interest and similar income	313.1	(5.7)	307.4
Fee and commission income	74.6	(0.4)	74.2
Other operating expenses	(169.5)	6.1	(163.4)
	218.2	–	218.2

Items reclassified into interest income from loans and advances to customers, which is reported within interest and similar income, consists of £0.4m of income from card fees and £6.1m of advertising and marketing expenses.

(ii) Fee and commission income

Fees arising from store and credit card agreements are predominantly based on customer transaction events (e.g. foreign exchange fees) and are recognised at the point of the customer transaction. Fees linked to certain card servicing activities are recognised after fulfilling the corresponding criteria. Any subsequent refunds of fees to customers are netted against fee and commission income in the year in which the Group commits to make the refund. Fee and commission income excludes fees that have been recognised using the EIR method and reported within interest and similar income in the consolidated income statement. Also included within fee and commission income are: interchange fees which are the fees received, as card issuer, each time a cardholder purchases goods and services; and other fees received which includes insurance commission and profit shares along with merchant transaction fee commission.

(iii) Customer cashback programmes

On some of the Group's products credit card customers earn cashback on qualifying card spend through cashback programmes. Expenses incurred in relation to these programmes are accrued as portfolio servicing costs in other operating expenses in the consolidated income statement when the relevant card spend is incurred on the customers' accounts.

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(7) Recognition of income and expenses continued

(iv) Loyalty programmes

Loyalty points and vouchers costs are recognised in the period in which they are incurred. Earned but not yet redeemed points and vouchers at the period end are reflected in the consolidated balance sheet as accruals.

Where loyalty points and vouchers expire before they are utilised by customers, the accrual is reversed in the period in which they expire. The costs are calculated individually for each scheme in place.

(v) Personnel expense

The Group applies IAS 19 'Employee Benefits' in its accounting for the relevant components of staff costs. Short-term employee benefits including salaries, accrued bonus, other incentive costs and social security are recognised over the period in which the employees provide the services to which the payments relate. Bonus and other incentive costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the services.

(vi) Defined contribution pension plan

The contributions payable to the defined contribution pension plan is in proportion to the services rendered to the Group by its employees and is recorded in the consolidated income statement as a personnel expense on an accruals basis. Unpaid contributions are recorded as an accrual in the consolidated balance sheet.

(vii) Share-based payment transactions

The fair value of the amount payable to employees in respect of share-based payment transactions is recognised as an expense with a corresponding increase in liabilities over the period in which the employees become unconditionally entitled to the shares.

(viii) Service costs

Certain service costs are subject to a netting arrangement whereby the expenses and income (rebates) relating to a specific servicer are netted against each other. This is in line with the servicer agreement and reflects the intention of both parties to settle on a net basis. Some of our service costs are prepaid and released to the income statement over the period in which the service is provided. These amounts are included in prepayments and accrued income in the balance sheet.

(ix) Capitalisation of expenditure

Expenditure relating to specific projects are reviewed to determine whether the capitalisation criteria of IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' are met (see note 2.2 (8) and (9)). The Group capitalises expenditure where the criteria are met and depreciates/amortises over the useful economic life of the asset.

(8) Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful economic life are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful economic lives. The estimated useful economic lives are as follows:

- Computer equipment — 3 – 5 years
- Fixtures and fittings — 3 years
- Leasehold improvements — over lease term

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is recognised in other operating expenses in the consolidated income statement in the period in which the asset is derecognised.

(9) Intangible assets

The Group's intangible assets include acquired trademarks and computer software. Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire or develop the specific software and bring it into use.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life, which are generally estimated to be between three and five years. The amortisation period and the amortisation method for an intangible asset with a finite useful economic life are reviewed at each reporting date. Changes in the expected useful economic life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in other operating expenses in the consolidated income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful economic lives.

(10) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the consideration transferred over the fair values of the identifiable net assets acquired is recognised as goodwill.

If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised as a gain on a bargain purchase directly in the consolidated income statement in the period of acquisition. No goodwill has been recognised from business combinations completed by the Group in previous years.

(11) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying value of the asset does not exceed its recoverable amount, nor exceeds the carrying value that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior periods. Such reversal is recognised in the consolidated income statement.

(12) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources representing economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in other operating expenses in the consolidated income statement net of any reimbursement.

See note 2.3 for further details on the significant accounting judgements, estimates and assumptions that affect provisions.

(13) Taxation

(i) Current tax

Current tax assets and liabilities arising in current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the tax balances are those that are enacted or substantively enacted by the reporting date.

Current tax relating to items recognised directly in equity is also recognised in equity and not in the consolidated income statement.

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(13) Taxation continued

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

(14) Ordinary shares, Interest Free Preferred Equity Certificates (IPECs) and Tracking Preferred Equity Certificates (TPECs)

The Company applies IAS 32 'Financial Instruments: Presentation' to determine whether funding is either a financial liability or equity.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Company having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument and the proceeds are included in equity, net of transaction costs.

Both the IPECs and TPECs in issue are classified as equity, as these instruments can be redeemed on the mandatory redemption date in 2041 at the option of the Company in the form of new Preferred Equity Certificates (PECs) with terms substantially identical to the existing IPECs or TPECs. In addition, full discretion can be exercised by the Managers over the payment of the return. Payment of returns are recognised as a liability and deducted from equity once approved by the Group's shareholders.

(15) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and are therefore no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the statutory consolidated Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. The most significant uses of judgements and estimates are as follows:

Impairment losses on loans and advances to customers

The Group reviews its loans and advances to customers at each balance sheet date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgement is required in the estimation of the amount and timing of expected future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and as such the actual results may differ, resulting in future changes to the allowance.

Loans and advances to customers are assessed collectively in groups of assets with similar risk characteristics, in order to determine whether a provision should be made due to incurred loss events for which there is objective evidence. The collective assessment takes account of data from the loan portfolio, such as historical losses on the portfolio, levels of arrears, credit utilisation, and expected receipts and recoveries once impaired. This assessment is performed to estimate both the probability of the accounts reaching charge-off (180 days in arrears) and the loss resulting from the charge-off. The emergence period, being the delay between the time a loss crystallises or is incurred and the time that trigger event is identified, is also taken into consideration. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy. The Group has no individually significant loans and advances to customers.

The impairment charge on loans and advances to customers is disclosed in more detail in note 11. Sensitivity analysis is detailed in note 21.2.

Payment Protection Insurance (PPI)

PPI provisions relate to the Group's obligations in respect of matters relating to the sale of PPI policies to cardholders. Whilst the Group has not sold any PPI policies directly, in certain circumstances it may be liable for PPI policies that were sold to cardholders whose accounts were subsequently acquired by, or assigned to, the Group, by previous owners or subsequent service providers.

The provision reflects our current view of the expected future liability based on historical information and using our best judgement regarding future developments. The Group has calculated the provisions by making a number of assumptions based upon current and historical experience and future expectations, having also taken legal and regulatory developments into account including the FCA's consultation paper 'CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation'. The total cost associated with PPI for the Group is estimated at £100.2m (2015: £81.4m), out of which £43.8m (2015: £31.4m) was remediated by 31 December 2016, leaving a provision of £56.4m (2015: £50.0m) in respect of future costs. For further details and sensitivity analysis see note 18.

Fair value unwind

Where the fair values of assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of statistical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. A key judgement is the expected life of the acquired portfolios, which determines the period over which the discount or premium on acquisition is amortised. Shortening the expected life of the acquired portfolios held by the Group by a year would result in an additional credit to the income statement of £1.1m (2015: £1.8m).

Consumer Credit Act (CCA) provision

The CCA provision relates to the Group's obligations in respect of non-compliance with the requirements of the Consumer Credit Act and related issues. The Group's obligations arise from compensating customers for interest and fees charged on their accounts during the period of non-compliance with the CCA.

The Group has calculated the provision by analysing the accounts impacted and computing the total amount of interest and fees charged on these accounts during the period of non-compliance. In the year to 31 December 2016, £1.1m has been settled (2015: £0.7m), with a remaining provision at 31 December 2016 of £1.4m (2015: £2.9m) in respect of future costs. In relation to purchased accounts, counterparties are contractually responsible for reimbursing the Group for any remediated amounts to customers, therefore a corresponding asset of £1.0m (2015: £1.2m) has been recorded within loan and receivables in other assets. For further details see note 18.

2. Accounting policies continued

2.4 Adoption of new and revised standards

The following new standards, interpretations and amendments to existing standards are mandatory for the first time for the year ended 31 December 2016 but do not have a significant impact on the Group:

- Annual improvements to IFRSs 2012-2014 cycle;
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'; and
- Amendments to IAS 27 'Separate Financial Statements'.

2.5 Standards issued but not yet effective

The following accounting standards and interpretations have been issued by the International Accounting Standards Board (IASB) but have not been early adopted by the Group:

- IFRS 9 'Financial Instruments'. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 'Financial Instruments: Recognition and Measurement' categories of held to maturity, loans and receivables and available for sale.

  IFRS 9 also replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases:

  - 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
  - lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

  Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

  The effective date for this standard is 1 January 2018. The impact of adopting IFRS 9 on the Group's consolidated Financial Statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group continues to assess the impact and our project for implementation is progressing in line with our internal plan. The Group intends to perform a parallel run during the second half of 2017 to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The standard is expected to have a significant impact on the Group's financial statements;
- IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 supersedes IAS 11 'Construction Contracts' and IAS 18 'Revenue' and sets out the requirements for recognising revenue that applies to contracts with customers, except for those revenue items that are covered by standards on leases, insurance contracts and financial instruments. This standard becomes effective on 1 January 2018 and the Group is currently performing a detailed assessment of the impact resulting from the application of IFRS 15;
- IFRS 16 'Leases'. IFRS 16 eliminates the classification of leases as either operating or finance leases and introduces a single lessee accounting model. Lessees will recognise a right-of-use asset and a corresponding lease liability. The asset will be amortised over the length of the lease and the financial liability will be measured at amortised cost. This standard is expected to become effective on 1 January 2019 and the Group is assessing the impact resulting from the application of IFRS 16;
- Amendments to IAS 7 'Statement of Cash Flows'. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flow and non-cash changes. The effective date for this standard is 1 January 2017;
- Amendments to IAS 12 'Income Taxes'. The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The effective date for this standard is 1 January 2017;
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. The amendment resolves the conflict between the existing guidance on consolidation and equity accounting; and
- Annual improvements to IFRSs 2014-2016 cycle.

3. Segment information

The Group's operating performance on a segmental basis is regularly reviewed by management. The segmental results contain various reclassifications from the statutory results. The Group's reportable segments comprise Own-brand, Co-brand and, from 2016, Unsecured Personal Loans, which are the segments reported to the chief operating decision maker, which is deemed to be the Chief Executive Officer and the Management Committee. Each segment offers different products and services and is managed in line with the Group's management and internal reporting structure. Segment performance is assessed on the basis of underlying contribution. The segments are as follows:

- Own-brand: this segment serves customers in the Near-prime sector who are typically new to credit or have a poor or limited credit history. The segment issues credit cards under a number of brands and also includes several closed portfolios;
- Co-brand: this segment provides credit card products in partnership with several established retailers. These products include store cards as well as branded credit cards. In addition to this, the Group also has a portfolio of other closed credit cards and a point-of-sale finance portfolio; and
- Unsecured Personal Loans: this segment, launched in December 2016, provides unsecured personal loan products to customers in the Near-prime sector.

These segments reflect how internal reporting is provided to management and how management allocate resources and assess performance. The accounting policies of the reportable segments are consistent with the Group's accounting policies. All of the Group's activities are conducted within the UK. Capital expenditure is not allocated to individual segments as property and equipment is managed at Group level.

The table below presents the results on the segmental basis:

Year ended 31 December 2016	**Own-brand £m**	**Co-brand £m**	**Unsecured Personal Loans £m**	**Total £m**
Net interest income	**242.3**	**120.9**	**(0.5)**	**362.7**
Fee and commission income	**31.4**	**18.3**	**–**	**49.7**
Total underlying income	**273.7**	**139.2**	**(0.5)**	**412.4**
Impairment losses on loans and advances to customers	**(136.3)**	**(20.3)**	**–**	**(156.6)**
Operating costs	**(38.4)**	**(77.6)**	**(2.9)**	**(118.9)**
Salaries, benefits and overheads				**(42.0)**
Underlying profit before tax				**94.9**
Other costs				**(18.4)**
Fair value unwind				**5.8**
All colleague acquisition bonus				**(8.9)**
Profit before tax				**73.4**
Gross receivables	**1,092.9**	**722.3**	**–**	**1,815.2**
Year ended 31 December 2015 *restated*				
Net interest income	163.4	109.5	–	272.9
Fee and commission income	26.3	22.2	–	48.5
Total underlying income	189.7	131.7	–	321.4
Impairment losses on loans and advances to customers	(96.2)	(18.7)	–	(114.9)
Operating costs	(30.7)	(63.0)	–	(93.7)
Salaries, benefits and overheads				(42.0)
Underlying profit before tax				70.8
Other costs				(51.1)
Fair value gain on derivatives				0.5
Fair value unwind				4.8
Profit before tax				25.0
Gross receivables	786.9	683.7	–	1,470.6

3. Segment information continued

The table below presents a reconciliation of the reclassifications from the statutory performance to the results shown in the segmental analysis:

Year ended 31 December 2016 reconciling items	**Statutory £m**	**Fair value unwind £m**	**Cost recovery fees £m**	**Other £m**	**Segmental basis £m**
Net interest income	**368.4**	**(5.8)**	**–**	**0.1**	**362.7**
Fee and commission income	**75.0**	**–**	**(25.3)**	**–**	**49.7**
Impairment losses on loans and advances to customers	**(156.8)**	**–**	**–**	**0.2**	**(156.6)**
Net operating income	**286.6**	**(5.8)**	**(25.3)**	**0.3**	**255.8**
Total operating expenses	**(213.2)**	**5.8**	**25.3**	**(0.3)**	**(182.4)**
Profit before tax	**73.4**	**–**	**–**	**–**	**73.4**
Year ended 31 December 2015 reconciling items *restated*					
Net interest income	277.7	(4.8)	–	–	272.9
Fee and commission income	74.2	–	(25.7)	–	48.5
Impairment losses on loans and advances to customers	(115.7)	–	–	0.8	(114.9)
Net operating income	236.2	(4.8)	(25.7)	0.8	206.5
Total operating expenses	(211.2)	4.8	25.7	(0.8)	(181.5)
Profit before tax	25.0	–	–	–	25.0

4. Interest and similar income

	Year ended 31 December 2016 £m	Year ended 31 December 2015 *restated* £m
Interest income from loans and advances to customers	**392.8**	302.2
Interest income from banks	**0.2**	0.3
Fair value unwind	**5.8**	4.8
Other	**0.2**	0.1
	399.0	307.4

A number of the loans and advances to customers have been acquired historically and the carrying value of these assets on initial recognition resulted in a fair value adjustment against the gross receivable. The fair value adjustment applied to these receivable balances is amortised into interest and similar income using the EIR method over the average expected life of these assets.

Refer to note 21.2 for information on interest income on impaired loans and advances to customers.

5. Interest and similar expense

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Interest on debt funding	**30.2**	28.6
Interest rate swaps	**–**	0.7
Other	**0.4**	0.4
	30.6	29.7

6. Fee and commission income

	Year ended 31 December 016 £m	Year ended 31 December 2015 *restated* £m
Card fees	**61.1**	55.0
Interchange fees	**7.1**	12.3
Other fees received	**6.8**	6.9
	75.0	74.2

7. Personnel expense

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Wages and salaries	**50.1**	38.9
Social security costs	**5.3**	3.7
Pension contributions	**2.6**	1.7
Other staff costs	**2.5**	3.0
Redundancy costs	**–**	1.0
	60.5	48.3
Average number of full time employees	**724**	695
Number of full time employees as at 31 December	**780**	691

The Group operates a management incentive plan in which certain employees and Directors of the Group invest in participating interests of Invicta EuroCard Services L.P., the controlling party of NewDay Group Holdings S.à r.l. These participating interests are treated as equity settled shares under IFRS 2 'Share-based Payment'.

Investments in participating interests by the employees and Directors during 2016 were made at fair value. As such no share-based payment expense has been recognised in the consolidated statement of comprehensive income (2015: £nil).

8. Other operating expenses

	Year ended 31 December 2016 £m	Year ended 31 December 2015 *restated* £m
Advertising and marketing	**9.3**	18.3
Administrative costs and commissions to retailers	**39.2**	33.8
Professional fees	**4.0**	3.7
Movement in PPI, CCA and CPP provisions* (see note 18)	**18.4**	37.6
Service costs	**56.1**	48.2
IT and communications	**3.4**	4.7
Project expenses	**20.5**	14.1
Depreciation of property and equipment (see note 14)	**1.3**	1.5
Amortisation of intangible assets (see note 15)	**0.1**	–
Other	**0.4**	1.5
	152.7	163.4

* CCA included in 2016.

Other operating expenses include £1.5m of operating lease expenses on our Leeds and London properties (2015: £1.6m).

Professional fees include fees payable to the auditor KPMG Luxembourg, Société coopérative and other member firms of the KPMG network in relation to:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Audit of consolidated Financial Statements	**0.1**	0.1
Audit of the Financial Statements of subsidiaries of the Company	**0.3**	0.5
Other assurance services	**0.3**	–
Tax compliance services	**0.1**	–
Corporate finance services	**0.8**	0.5
	1.6	1.1

The auditor is permitted to undertake work in other areas where it is the most suitable supplier and the terms and conditions of the engagement, including the fee, do not impair its objectivity or independence. During 2016, the Group engaged KPMG to undertake corporate finance services as Värde Partners explored opportunities for the sale of the Group.

9. Tax expense

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Current tax expense	**1.6**	0.5
Under provision in respect of prior year	**0.2**	0.3
	1.8	0.8
Deferred tax (credit)/expense	**(0.1)**	0.1
Tax expense	**1.7**	0.9

Reconciliation of the total tax charge

All operating activities of the Group take place in the UK, hence the applicable tax regime for all the Group entities apart from the parent company is the UK. The Luxembourg tax regime is applicable for the Parent Company and is reflected in the computations accordingly. A reconciliation between the accounting profit before tax and the tax expense for the year ended 31 December 2016 is as follows:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Profit before tax	**73.4**	25.0
Tax charge at average UK corporation tax rate of 20% (2015: 20.25%)	**14.7**	5.1
Effects of:		
Adjustment in respect of prior years	**0.2**	0.3
Disallowable items and allowable deductions	**(0.3)**	(1.7)
Profits subject to corporation tax under securitisation vehicle rules	**(12.9)**	(2.8)
Tax expense	**1.7**	0.9

For the period from 1 January 2016 to 31 December 2016, the enacted UK corporation tax rate was 20% (1 January 2015 to 31 March 2015: 21% and from 1 April 2015 to 31 December 2015: 20%). The average tax rate, assessed for the year, is calculated at 20% (2015: 20.25%). From 1 April 2017 the rate will be 19%.

The Group has deferred tax liabilities of £nil resulting from temporary differences (2015: £0.1m). The Group does pay tax in foreign jurisdictions but the amounts paid are immaterial to the Group.

There were no amounts of tax recognised through the consolidated statement of comprehensive income in the year.

10. Loans and advances to banks

	As at 31 December 2016 £m	As at 31 December 2015 £m
Loans and advances to banks	**128.8**	73.7
Restricted cash	**39.8**	33.1
	168.6	106.8
Cash and cash equivalents	**128.8**	73.7

Loans and advances to banks are held with large commercial banks. Restricted cash of £39.8m (2015: £33.1m) is restricted for more than one year and consists of ring fenced cash for credit balances on loans and advances to customers, as well as cash restricted due to covenants in place as per the Group's funding structure.

11. Loans and advances to customers

	As at 31 December 2016 £m	As at 31 December 2015 £m
Loans and advances to customers	**1,864.7**	1,494.5
Impairment provision on loans and advances to customers	**(104.7)**	(85.1)
	1,760.0	1,409.4

Loans and advances to customers held in NewDay Funding Transferor Ltd, NewDay Partnership Transferor plc and NewDay UPL Transferor Ltd fall within the associated securitisation structures (see note 21.3 and 25 for further details of the Group's structured entities). There is no fixed term for repayment of credit card loans other than a general requirement for customers to make a minimum monthly repayment towards their outstanding balance.

11. Loans and advances to customers continued

The movement in the impairment provision during the year is as follows:

	Impairment provision £m
As at 1 January 2015	(54.1)
Charge-offs during the year	107.7
Recoveries during the year	(23.0)
Charge to the consolidated income statement during the year	(115.7)
As at 31 December 2015	**(85.1)**
Charge-offs during the year	**167.5**
Recoveries during the year	**(30.3)**
Charge to the consolidated income statement during the year	**(156.8)**
As at 31 December 2016	**(104.7)**

Transfers of financial assets

The Group transfers charged-off loan balances to recovery agencies, in the ordinary course of business, for a proportion of their carrying value. It also undertakes that certain recourse may be claimed by the recovery agencies if specific criteria are not met up to an 18-month period from the date of transfer. Up to this date the Group is responsible for returning sale proceeds to the agencies, depending on the provisions of each individual sales agreement. During the year the Group sold and derecognised charged-off loans and advances to customers for the purpose of expediting recovery of these balances for total net proceeds of £35.2m (2015: £20.2m). The Group has no other transferred financial assets which are derecognised partly or in their entirety and in which it retains some form of continuing involvement.

12. Other assets

	As at 31 December 2016 £m	As at 31 December 2015 £m
Loans and receivables	**32.9**	19.6
Prepayments and accrued income	**21.1**	9.7
	54.0	29.3

Included within loans and receivables is a loan extended to a Director of NewDay Cards Ltd issued by the Group in 2011, comprising the principal of £1.8m and interest at 5% accrued to 31 December 2016. No repayments were made during the year (2015: none). The loan includes debt forgiveness clauses which are dependent upon certain Group performance criteria being achieved. As at 31 December 2016, the loan is included in the Financial Statements at a value of £2.1m (2015: £2.0m). This value takes into account any debt forgiveness clauses which have been partially met or are forecast to be met in the future. See note 24 for related party disclosures and note 26 for details of movements in the Directors' loans after the balance sheet date.

In 2013 the Group issued interest free loans totalling £1.3m to the Directors and staff of NewDay Cards Ltd. A further amount of £0.9m was issued during the year (2015: a net repayment of £0.2m). The outstanding balance as at 31 December 2016 is £1.8m (2015: £0.9m) which is also recognised in loans and receivables. See note 24 for related party disclosures and note 26 for details of movements in the Directors' loans after the balance sheet date.

13. Equity investments

	As at 31 December 2016 £m	As at 31 December 2015 £m
Equity investments	**13.3**	–

In 2016 the Group made an investment in certain partnership interests of Invicta EuroCard Services L.P. with a fair value of £13.3m. These partnership interests have been classified as fair value through profit and loss. The Group is not able to exercise significant influence or control over Invicta EuroCard Services L.P..

14. Property and equipment

	Computer equipment £m	Fixtures and fittings £m	Leasehold improvements £m	Total property and equipment £m
Cost at 1 January 2016	**1.4**	**1.6**	**5.6**	**8.6**
Additions	**0.8**	**0.1**	**0.4**	**1.3**
Cost at 31 December 2016	**2.2**	**1.7**	**6.0**	**9.9**
Depreciation at 1 January 2016	**(1.0)**	**(0.7)**	**(0.9)**	**(2.6)**
Charge to the consolidated income statement for the year	**(0.2)**	**(0.5)**	**(0.6)**	**(1.3)**
Depreciation at 31 December 2016	**(1.2)**	**(1.2)**	**(1.5)**	**(3.9)**
Net book value at 31 December 2016	**1.0**	**0.5**	**4.5**	**6.0**
Net book value at 31 December 2015	0.4	0.9	4.7	6.0

There were no disposals during the year.

15. Intangible assets

	Total intangible assets £m
Cost at 1 January 2016	**–**
Additions	**4.1**
Cost at 31 December 2016	**4.1**
Amortisation at 1 January 2016	**–**
Charge to the consolidated income statement for the year	**(0.1)**
Amortisation at 31 December 2016	**(0.1)**
Net book value at 31 December 2016	**4.0**
Net book value at 31 December 2015	–

The Group's intangible assets include acquired trademarks and computer software. There were no disposals during the year.

16. Debt issued and other borrowed funds

	As at 31 December 2016 £m	As at 31 December 2015 £m
Bonds	**1,279.1**	975.9
Senior floating rate loans	**290.3**	200.9
	1,569.4	1,176.8
Capitalised debt funding fees	**(8.2)**	(7.0)
	1,561.2	1,169.8

Debt issued and other borrowed funds consist of publicly listed asset-backed term debt and variable funding notes provided by a number of different investors. The debt issued, provided at LIBOR plus margin, is backed by securitised outstanding loans and advances to customers. £903.6m is to fund the Own-brand portfolio (2015: £549.0m), £659.8m is to fund the Co-brand portfolio (2015: £627.8m) and £6.0m is to fund the Unsecured Personal Loan business (2015: £nil).

16. Debt issued and other borrowed funds continued

The scheduled maturities of bonds and senior floating rate loans are as follows:

	As at 31 December 2016 £m	As at 31 December 2015 £m
Debt issued and other borrowed funds repayable in:		
Less than one year	**415.3**	–
Between one and two years	**423.3**	383.4
Between two and five years	**730.8**	593.7
More than five years	**–**	199.7
	1,569.4	1,176.8

Refer to note 25 for further details on the funding structure.

17. Other liabilities

	As at 31 December 2016 £m	As at 31 December 2015 £m
Trade payables and accruals	**64.3**	38.4
Other liabilities	**9.0**	7.4
Pension contributions	**0.4**	0.3
Loans from related parties	**3.2**	2.8
	76.9	48.9

Värde Investment Partners, L.P. (US) loaned £1.8m to NewDay Group Ltd in May 2011 which accrues interest at a rate of 12%. The balance as at 31 December 2016 including accrued interest was £3.2m (2015: £2.8m). See note 26 for details of post balance sheet events.

18. Provisions

The movement in provisions during the year is as follows:

	PPI provision £m	CPP provision £m	CCA provision £m	Customer refund provision £m	Dilapidation provision £m	Other provisions £m	Total provisions £m
At 1 January 2015	20.9	0.5	2.3	–	1.4	–	25.1
Arising/(released) during the year	38.1	(0.5)	1.3	3.9	–	0.7	43.5
Utilised during the year	(9.0)	–	(0.7)	–	–	–	(9.7)
At 31 December 2015	**50.0**	**–**	**2.9**	**3.9**	**1.4**	**0.7**	**58.9**
Arising/(released) during the year	**18.8**	**–**	**(0.4)**	**–**	**0.1**	**8.7**	**27.2**
Utilised during the year	**(12.4)**	**–**	**(1.1)**	**(3.5)**	**–**	**(0.5)**	**(17.5)**
At 31 December 2016	**56.4**	**–**	**1.4**	**0.4**	**1.5**	**8.9**	**68.6**

PPI and CPP provisions

The PPI and CPP provisions relate to the Group's liabilities in respect of matters relating to the sale of PPI and Card Protection Plans (CPP) to cardholders and result from compensating customers for any PPI or CPP claims arising from portfolios purchased from or originated by a third party, and where PPI or CPP has been sold by such third party.

As at 31 December 2016 the Group holds a provision of £56.4m (2015: £50.0m) in respect of the anticipated costs of PPI redress, which includes a provision of £3.3m in relation to administrative expenses. There are still a number of uncertainties as to the eventual PPI redress costs, in particular the total number of claims and the cost per claim, however, the Managers believe that the amounts provided at the year end, based on historical and forecasted claim rates and amounts, along with ongoing legal and regulatory developments, appropriately reflect the expected cost to the Group.

The principal sensitivities in the PPI provision calculation are: the claim rate, impact of FCA-led publicity campaigns, uphold rate and average redress amount. A movement in each principal sensitivity would result in the following movement in the PPI provision:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
+/- 5% in claim rate	**+/- 0.9**	+/- 0.8
+/- 2.5 percentage points in FCA-led publicity campaigns uplift	**+/- 9.1**	+/- 8.1
+/- 5 percentage points in uphold rate	**+/- 1.1**	+/- 1.6
+/- 10% in average redress amount	**+/- 5.3**	+/- 4.6

Under the FCA's card and identity protection compensation scheme policyholders were able to claim compensation for mis-sold CPP policies. The FCA deadline for claiming compensation ended on 30 August 2014 after which no further claims were required to be considered. Consequently the Group's provisions for CPP administration expenses were fully released in 2015 and the Group has no further liability.

CCA provision

The CCA provision contains the Group's obligations in respect of compensation to customers for non-compliance with the Consumer Credit Act (CCA). In certain instances, this relates to purchased accounts whereby the seller had not complied with the requirements of the CCA. As such the Group is fully compensated for costs by the seller of the accounts, and a corresponding asset of £1.0m (2015: £1.2m) has been recorded in loans and receivables in the balance sheet.

Customer refund provision

In 2015 the Group commissioned an in-depth review of default fees to ensure that customers continued to be treated fairly. The outcome of this was that from January 2016 the Group stopped charging customers some of these default fees in certain circumstances. In addition, the Group reimbursed customers where they had been charged these fees under these circumstances from 1 April 2014 onwards. The remaining provision for reimbursing customers, including the associated operational costs, is £0.4m (2015: £3.9m).

Dilapidations provision

A provision of £1.5m (2015: £1.4m) is held as at 31 December 2016 for dilapidation of our leased Leeds and London offices. This has been discounted over the remaining period of the leases, which as at 31 December 2016 is a weighted average of 7 years, at the risk-free rate.

Other provisions

Other provisions consists of an all colleague acquisition bonus payable to employees and certain Directors in connection with the completion of the acquisition of the Group by funds advised by Cinven and CVC.

19. Share capital and reserves

	As at 31 December 2016 £m	As at 31 December 2015 £m
Share capital and share premium	**2.0**	2.0
Capital contribution	**13.3**	–
IPECs	**68.5**	68.5
TPECs	**161.8**	161.8
	245.6	232.3

	As at 31 December 2016		As at 31 December 2015	
Called up share capital ordinary shares (1 pence)	Number of shares	Nominal value £'000	Number of shares	Nominal value £'000
At 1 January	**5,000,000**	**50**	5,000,000	50
Issued during the year	**–**	**–**	–	–
At 31 December	**5,000,000**	**50**	5,000,000	50

Share capital consists of 5,000,000 fully paid up ordinary shares at a nominal value of 1 pence.

The capital contribution from Invicta EuroCard Services L.P. will be used to fund the all colleague acquisition bonus plan payable to employees upon completion of the sale of the Group from Värde Partners to funds advised by Cinven and CVC.

Both Interest Free Preferred Equity Certificates (IPECs) and Tracking Preferred Equity Certificates (TPECs) in issue are classified as equity, as these instruments can be redeemed on the mandatory redemption date in 2041 at the option
of the Company in the form of new Preferred Equity Certificates (PECs) with terms substantially identical to the existing IPECs or TPECs. In addition, full discretion can be exercised by the Managers over the payment of the return on TPECs. A £60.0m return on TPECs was paid in the year (2015: £40.0m) along with interest on TPECs of £nil (2015: £0.4m).

Both IPECs and TPECs with respect to redemption, rights on liquidation and, where appropriate return, rank as follows:

- pari passu with any other PECs and convertible PECs issued by the Company;
- prior to all shares of common stock issued by the Company, whether outstanding on the date hereof or issued in the future, including tracker shares and ordinary shares; and
- subordinate to all present and future obligations of the Company, whether secured or unsecured.

The Company issued no new IPECs or TPECs during the year ended 31 December 2016 (2015: none) and there were no movements in IPECs or TPECs.

Capital management

In accordance with Luxembourg law, the Parent Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve, until such reserve reaches 10% of the issued share capital. This reserve has been fully established (2015: fully established). Distribution of the legal reserve is restricted.

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The objectives, policies and processes are under constant review by the Managers.

The Group maintains an actively managed capital base to cover risks inherent in the business and specifically for NewDay Ltd, to meet the capital adequacy requirements of the FCA under the Payment Services Regulations (2009) for Authorised Payment Institutions.

During the year, the Group had complied with its externally imposed capital requirements.

20. Fair value of financial instruments

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: other techniques for which all inputs, other than observable unadjusted quoted prices included within level 1, having a significant effect on the recorded fair value are observable, either directly or indirectly; and
- level 3: techniques which use inputs having a significant effect on the recorded fair value not based on observable market data.

Fair value of financial instruments carried at amortised cost

Set out below is a comparison, by class, of the carrying value and fair values of the Group's financial instruments:

As at 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	**–**	**168.6**	**–**	**168.6**	**168.6**
Loans and advances to customers	**–**	**–**	**1,760.0**	**1,760.0**	**1,760.0**
Other assets	**–**	**29.0**	**3.9**	**32.9**	**32.9**
Equity investments	**–**	**–**	**13.3**	**13.3**	**13.3**
Total financial assets	**–**	**197.6**	**1,777.2**	**1,974.8**	**1,974.8**
Financial liabilities					
Debt issued and other borrowed funds	**–**	**(1,273.9)**	**(287.3)**	**(1,561.2)**	**(1,550.3)**
Other liabilities	**–**	**(76.5)**	**–**	**(76.5)**	**(76.5)**
Total financial liabilities	**–**	**(1,350.4)**	**(287.3)**	**(1,637.7)**	**(1,626.8)**

As at 31 December 2015					
Financial assets					
Loans and advances to banks	–	106.8	–	106.8	106.8
Loans and advances to customers	–	–	1,409.4	1,409.4	1,409.4
Other assets	–	16.7	2.9	19.6	19.6
Total financial assets	–	123.5	1,412.3	1,535.8	1,535.8
Financial liabilities					
Debt issued and other borrowed funds	–	(970.4)	(199.4)	(1,169.8)	(1,160.5)
Other liabilities	–	(48.6)	–	(48.6)	(48.6)
Total financial liabilities	–	(1,019.0)	(199.4)	(1,218.4)	(1,209.1)

Loans and advances to banks

These items have a short-term maturity (usually less than three months) and it is assumed that their carrying value approximates to their fair value as a result of their short time horizon to maturity. These have been classified as level 2 because these items can be re-priced using market observable inputs.

Loans and advances to customers

This contains the receivables related to credit card balances that have been issued by the Group. The Group regularly reviews the pricing of the portfolio and, to the extent that there has been a movement in the credit spread charged to customers in the market or changes in expected credit losses on the book, it re-prices each eligible portfolio to be reflective of market rates accordingly. As a result of the re-pricing, the interest rate on such products is equivalent to current market rate and as such the Group considers the fair value of these credit cards to be equal to their carrying value. All valuation inputs used to value these instruments have been derived from historical performance of the Group's portfolios which would not be observable to a market participant and as such these financial instruments have been classified as level 3.

20. Fair value of financial instruments continued

Other assets

Other assets consist of loans and receivables. The fair value of these receivable balances approximates to their carrying value as there have been no significant market conditions that would have caused a difference between the two values. These have been classified as level 2 where the items can be re-priced using market observable inputs and level 3 where the valuation is not based upon observable market data.

Equity investments

The Group holds an investment in certain partnership interests of Invicta EuroCard Services L.P.. The fair value of this investment was categorised as level 3 as the partnership interests were not listed on an exchange and therefore there is no observable market data available.

Debt issued and other borrowed funds

This balance contains the publicly issued listed term debt and variable funding notes. For the publicly issued listed term debt an observable market price is available however it is not actively traded therefore the fair value has been estimated using prices quoted by the banks and it has been classified as level 2. The senior variable funding notes' fair value approximates to its carrying value. These variable funding notes are private bilateral agreements that can be drawn upon and repaid by the borrower. These issuances have been classified as level 3.

Other liabilities

Other liabilities are made up of mostly accounts payable. The fair value of other liabilities approximates to their carrying value because there have been no factors that would have caused a difference between these two values. These have been classified as level 2 because these items can be re-priced using market observable inputs.

21. Risk management

21.1 Introduction

Risk is inherent in the Group's activities, but is managed through a process of ongoing identification, measurement and monitoring, with respect to pre-determined risk appetite settings and other controls performed by the Board. The Group controls risk via the operation of a Risk Management Framework.

Sound risk management is critical to ensure the Group meets its regulatory requirements, and delivers on the strategic and financial goals agreed with shareholders, whilst also preserving the Group's brand and reputation.

The financial risks faced by the Group include:

- credit risk;
- liquidity, funding and cash management risk;
- market risk; and
- regulatory and conduct risk.

Risk measurement and reporting systems

As part of the overall risk management strategy, risks are measured, monitored and reported to ensure the Group understands the risks it faces. The Group has a definition and categorisation model that forms a key part of the Risk Management Framework.

The Group uses qualitative and quantitative methods (including the use of statistical models) to compute both expected and unexpected losses.

Monitoring and control processes are set by the Board of Directors, delegated to the Board Risk Committee and subsequently delegated down to the individual business committees and ultimately to all employees of the Group.

Information is compiled from all parts of the business in order to identify, analyse and control risks on a timely basis. Appropriate key risk indicators and other information are presented and discussed at the Board Risk Committee (on a quarterly basis), Enterprise Risk Management Committee and specific sub-committees on a monthly basis, or more frequently as required.

21.2 Credit risk

The Group is exposed to credit risk on loans and advances to customers and other financial assets. Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and monitoring exposures in relation to such limits.

Credit risk exposure from customers is managed throughout the lifecycle, underpinned by proprietary models which have been developed from customers' historical credit performance and are used to forecast a probability of charge-off given a level of credit. At the point of originating a new account, the risk profile is assessed against the credit policy and scorecard cut-off, aligned to the product applied for, to determine the terms and credit limit offered. Credit assessment utilises a combination of customer provided data as well as data sourced from multiple credit reference agencies.

A monthly assessment of our existing customers' risk profiles determines if their credit limit is still appropriate for their borrowing needs. The proprietary models utilise spend and payment behaviour from products held by the Group as well as products with other providers to determine if a credit limit increase or decrease should be presented to the customer.

Risk-based arrears management combined with specific contact strategies ensure that letters, inbound and outbound telephony, use of SMS and email are deployed in a way which manages credit risks. Contact is established with customers to understand the reason behind missed payments and to understand if potential future concerns exist over payments due. Strategies are then deployed to ensure the customers in arrears are supported in returning to an up-to-date position or appropriate forbearance arrangements are put into place.

The Group has a range of treatments for customers who are experiencing financial stress through concessions which can be applied on a short-term or permanent basis where there is no detriment to the customer. Forbearance or other temporary arrangements are designed to ensure that the customer's product remains sustainable and aligned to their personal circumstances. A customer identified as being in financial difficulty will be managed on an individual basis, with the appropriate understanding of personal circumstances and priority debt being key factors in judging if a suitable arrangement can be made so the debt repayment becomes affordable and sustainable.

The provision of such arrangements is managed through the operational centres and governed via several methods, including, but not limited to: operational policy framework, controls against the execution of the policy, regular quality assurance reviews and customer outcomes through regular reporting.

Forbearance arrangements span a vast spectrum of relief and time, ranging from a temporary suspension of fees and interest, which allows a customer the time to assess their options and complete an income and expenditure assessment which is issued to them, through matched contributions to bring customers back into a more sustainable position and extending to an indefinite suspension of fees and interest with a contribution from the customer being made on a monthly basis.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of customers. Credit limits are established using a credit risk classification system, which assigns each customer a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and to take corrective action where appropriate.

Impairment assessment

In accordance with IAS 39, the Group uses an incurred loss model for the recognition of impairment losses on financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Trigger events include the following:

- indication of significant financial difficulty of a customer or a breach of contract such as a default of payment;
- where the Group grants the customer a concession due to the customer experiencing financial difficulty;
- it becomes probable that the customer will enter bankruptcy or other financial reorganisation; or
- other observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

Collectively assessed allowances

Allowances are assessed collectively for impairment losses on loans and advances to customers due to the fact that balances are not individually significant.

The Group generally bases its analyses on historical experience. However, in response to significant regional and/or global market developments, the Group would include macro-economic factors within its assessments. These factors depend on the characteristics of the assessment but include: unemployment rates; current levels of bad debt; change in the law; change in regulation; bankruptcy trends; and other consumer data. The Group may use the aforementioned factors as appropriate to adjust impairment allowances.

21. Risk management continued
21.2 Credit risk continued
Collectively assessed allowances continued

A collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether a provision should be made due to incurred loss events. The collective assessment takes account of data from the loan portfolio, such as historical losses on the portfolio, levels of arrears, credit utilisation, and expected receipts and recoveries once impaired. The emergence period, being the delay between the time a loss crystallises or is incurred and the time that the asset is identified as impaired, is also taken into consideration. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

The principal sensitivities in the provision calculation are the probability of charge-off, the amounts to be recovered on credit losses and the emergence period. A movement in each principal sensitivity would result in the following movement in the impairment provision:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
+/- 10% shift in probability of charge-off	**+ 5.5 / - 5.2**	+ 3.9 / - 3.9
+/- 1 pence movement per pound of receivable on recoveries expected on credit losses	**-/+ 1.1**	-/+ 0.7
+/- 1 month movement in the emergence period	**+/- 9.9**	+/- 8.2

Analysis of credit risk and credit enhancements

As at 31 December 2016	**Neither past due nor impaired £m**	**Impaired £m**	**Total £m**	**Maximum exposure to credit risk £m**
Financial assets				
Loans and advances to banks	**168.6**	**–**	**168.6**	**168.6**
Loans and advances to customers	**1,686.7**	**73.3**	**1,760.0**	**1,760.0**
Other assets	**32.9**	**–**	**32.9**	**32.9**
Equity investments	**13.3**	**–**	**13.3**	**13.3**
	1,901.5	**73.3**	**1,974.8**	**1,974.8**
As at 31 December 2015				
Financial assets				
Loans and advances to banks	106.8	–	106.8	106.8
Loans and advances to customers	1,345.9	63.5	1,409.4	1,409.4
Other assets	19.6	–	19.6	19.6
	1,472.3	63.5	1,535.8	1,535.8

Ageing analysis

	<30 days £m	**31-60 days £m**	**61-90 days £m**	**<180 days £m**	**Total £m**
Financial assets					
Past due and impaired at 31 December 2016	**44.8**	**9.7**	**6.5**	**12.3**	**73.3**
Past due and impaired at 31 December 2015	46.0	6.8	4.2	6.5	63.5

Included in impaired loans and advances to customers are forborne accounts where the Group expects to recover assets but historical experience suggests that there is a component of loss that will be crystallised. These are customers with specific payment arrangement plans which are less onerous than standard contractual terms and conditions. At 31 December 2016, there were £55.7m of forborne assets in impaired loans and advances to customers (2015: £50.5m). If the cash flows on forborne assets were to increase or decrease by 10% this would result in a decrease or increase in the impairment provision of £0.6m or £0.6m respectively.

In the year to 31 December 2016, the Group has recognised interest income relating to impaired assets of £19.7m (2015: £16.1m). The interest income is recognised in line with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement'.

Collateral held

The Group's primary business is to provide short-term credit to customers using the Group's various branded store and credit cards. In the course of providing credit to customers, the Group has credit risk assessment practices which provide approval for individuals to be extended credit. In providing these products it is not the policy of the Group to obtain collateral or other credit enhancements which reduce exposure to credit risk, other than the individual's commitment to repay outstanding balances.

Other commitments provided

As at 31 December 2016, the Group has undrawn facilities on its loans and advances to customers, however facilities are not irrevocably committed. The Group has not entered into any other financial guarantee contracts, letters of credit or other undrawn commitments to lend.

21.3 Liquidity, funding and cash management risk

Contractual cash flow maturity

Loans and advances to customers constitute primarily store and credit cards. All cardholder receivables are contractually repayable on demand and have been disclosed as such. Individual cardholder customer behaviour varies and the cards are used as revolving facilities where drawdowns and repayments towards outstanding balances are made over time. The Group's experience is that the average life of a cardholder account is four years. The point of sale finance receivables follow a pre-agreed repayment schedule and have been disclosed accordingly.

Of the £1,569.4m debt issued, £415.3m has a scheduled maturity of less than one year and £1,154.1m has a scheduled redemption date of one to five years. However, as the movement in debt funding matches the contractual profile of the card balances, the maturity profile of the debt will match the expected maturity of the card receivable balances and therefore has been disclosed as largely repayable on demand.

Total committed funding facilities

The Group's total committed funding facilities at 31 December 2016 are £2,063.6m (2015: £1,600.1m) of which £494.2m is undrawn (2015: £423.3m).

21. Risk management continued

21.3 Liquidity, funding and cash management risk continued

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the contractual maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December 2016:

As at 31 December 2016	**On demand £m**	**Less than 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Financial assets						
Loans and advances to banks	**128.8**	**–**	**–**	**39.8**	**–**	**168.6**
Loans and advances to customers	**1,845.9**	**0.4**	**0.1**	**–**	**–**	**1,846.4**
Other assets	**–**	**29.0**	**2.1**	**1.8**	**–**	**32.9**
Equity investments	**13.3**	**–**	**–**	**–**	**–**	**13.3**
Financial liabilities						
Debt issued and other borrowed funds	**(1,569.0)**	**(0.3)**	**(0.1)**	**–**	**–**	**(1,569.4)**
Other liabilities	**–**	**(73.3)**	**–**	**–**	**(3.2)**	**(76.5)**
Net cash flow	**419.0**	**(44.2)**	**2.1**	**41.6**	**(3.2)**	**415.3**
As at 31 December 2015						
Financial assets						
Loans and advances to banks	73.7	–	–	33.1	–	106.8
Loans and advances to customers	1,464.4	7.8	14.1	10.0	–	1,496.3
Other assets	–	16.7	2.9	–	–	19.6
Financial liabilities						
Debt issued and other borrowed funds	(1,151.7)	(6.2)	(11.2)	(8.4)	–	(1,177.5)
Other liabilities	–	(45.8)	–	–	(2.8)	(48.6)
Net cash flow	386.4	(27.5)	5.8	34.7	(2.8)	396.6

Securitisation vehicles

In the ordinary course of business, the Group enters into transactions that result in the transfer of the right to receive repayments in respect of loans and advances to customers to securitisation vehicles. In accordance with the accounting policy set out in note 2.2 (3), the transferred loans and advances to customers continue to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets that are not derecognised in their entirety or for which the Group has continuing involvement through securitisation activities. The Group transfers loans and advances to customers to securitisation vehicles but retains substantially all of the risks and rewards of ownership. The Group benefits to the extent that the surplus income generated by the transferred assets exceeds the administration costs of the securitisations, the administration costs of servicing the assets, the cost of funding the assets and the cost of any losses associated with the assets. Refer to note 25 for further details on the structure.

The results of the securitisation vehicles are consolidated into the Group. The table below shows the carrying values and fair values of the assets transferred to securitisation vehicles and the related carrying value and fair value of the associated liability. The carrying values presented below are the carrying values presented in the financial statements of the subsidiary.

As at 31 December 2016	Carrying value of transferred assets not derecognised £m	Carrying value of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net fair value £m
NewDay Funding Transferor Ltd	**1,010.2**	**(899.2)**	**1,010.2**	**(893.6)**	**116.6**
NewDay Partnership Transferor plc	**723.5**	**(657.1)**	**723.5**	**(651.8)**	**71.7**
NewDay UPL Transferor Ltd	**–**	**(4.9)**	**–**	**(4.9)**	**(4.9)**
	1,733.7	**(1,561.2)**	**1,733.7**	**(1,550.3)**	**183.4**
As at 31 December 2015					
NewDay Funding Transferor Ltd	716.4	(545.0)	716.4	(543.1)	173.3
NewDay Partnership Transferor plc	672.1	(624.8)	672.1	(617.4)	54.7
	1,388.5	(1,169.8)	1,388.5	(1,160.5)	228.0

21.4 Market risk

Market risk is defined as the risk that market movements will negatively affect the value of the Group's assets and liabilities. The only material market risk that the Group is exposed to is interest rate risk.

The main source of interest rate risk for the Group arises where there is a significant difference between the interest rate bases on assets compared to liabilities. The Group's assets are predominantly variable rate and are sensitive to interest rate movements to the extent that the Group is prohibited from re-pricing the portfolio of assets. The Group's funding is LIBOR based floating rate and therefore is also sensitive to interest rate movements. The following tables analyse the Group's assets and liabilities by reference to the period of time before that asset or liability can be re-priced to re-align interest rates.

Contractual re-pricing profile

As at 31 December 2016	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-re-pricing or non-interest bearing £m	Total £m
Financial assets						
Loans and advances to banks	**128.8**	**–**	**–**	**39.8**	**–**	**168.6**
Loans and advances to customers	**1,165.0**	**–**	**–**	**–**	**595.0**	**1,760.0**
Other assets	**–**	**–**	**–**	**–**	**32.9**	**32.9**
Equity investments	**–**	**–**	**–**	**–**	**13.3**	**13.3**
Financial liabilities						
Debt issued and other borrowed funds	**(1,561.2)**	**–**	**–**	**–**	**–**	**(1,561.2)**
Other liabilities	**–**	**–**	**–**	**–**	**(76.5)**	**(76.5)**
Net re-pricing difference	**(267.4)**	**–**	**–**	**39.8**	**564.7**	**337.1**

21. Risk management continued
21.4 Market risk continued
Contractual re-pricing profile continued

As at 31 December 2015	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-re-pricing or non-interest bearing £m	Total £m
Financial assets						
Loans and advances to banks	73.7	–	–	33.1	–	106.8
Loans and advances to customers	1,105.8	57.9	–	–	245.7	1,409.4
Other assets	–	–	–	–	19.6	19.6
Financial liabilities						
Debt issued and other borrowed funds	(1,169.8)	–	–	–	–	(1,169.8)
Other liabilities	–	–	–	–	(48.6)	(48.6)
Net re-pricing difference	9.7	57.9	–	33.1	216.7	317.4

The following table demonstrates the sensitivity to changes in interest rates (all other variables being held constant) of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2016. Total sensitivity of the consolidated income statement is based on the assumption that there are parallel shifts in the yield curve.

Interest rate risk sensitivity

		Sensitivity of profit or loss	
	Increase/ (decrease) in basis points	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Loans and advances to customers	+25/(25)	**3.2/(3.2)**	3.1/(3.1)
Debt issued and other borrowed funds	+25/(25)	**(3.9)/3.9**	(2.9)/2.9

21.5 Regulatory and conduct risk
Regulatory risk is the risk of regulatory sanction, material financial loss or reputational damage if the organisation fails to design and implement operational processes, systems and controls such that it can maintain compliance with all applicable regulatory requirements. The Board Risk Committee reviews and discusses proposed regulatory changes that the Group is subject to. Regulatory developments form part of the Board Risk Committee's updates to the Board which assesses the impact of regulatory change on the Group's balance sheet and risk profile.

Conduct risk is the risk of customer detriment arising from inappropriate culture, products and processes. Conduct risk can arise through the design of products that do not meet customers' needs, mishandling complaints where the Group has behaved inappropriately towards its customers, inappropriate sale processes and exhibiting behaviour that does not meet market or regulatory standards. Avoiding poor customer outcomes requires focus on treating customers fairly including ensuring affordability and sustainability of lending and handling vulnerable customers sensitively. The Group mitigates conduct risk by monitoring various operational metrics through our customer outcomes radar and by tracking activities which affect customers, monitoring customer complaints, implementing process improvements and adhering to service standards. The outcomes of this reporting are monitored by the Board and the Board Risk Committee.

22. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	As at 31 December 2016			As at 31 December 2015		
	< 12 months £m	> 12 months £m	Total £m	< 12 months £m	> 12 months £m	Total £m
Assets						
Loans and advances to banks	**128.8**	**39.8**	**168.6**	73.7	33.1	106.8
Loans and advances to customers	**1,487.6**	**272.4**	**1,760.0**	1,205.2	204.2	1,409.4
Current tax assets	**0.8**	**–**	**0.8**	0.4	–	0.4
Other assets	**48.7**	**5.3**	**54.0**	29.3	–	29.3
Equity investments	**13.3**	**–**	**13.3**	–	–	–
Property and equipment	**–**	**6.0**	**6.0**	–	6.0	6.0
Intangible assets	**–**	**4.0**	**4.0**	–	–	–
Total assets	**1,679.2**	**327.5**	**2,006.7**	1,308.6	243.3	1,551.9
Liabilities						
Debt issued and other borrowed funds	**(1,319.6)**	**(241.6)**	**(1,561.2)**	(1,000.3)	(169.5)	(1,169.8)
Current tax liabilities	**(1.2)**	**–**	**(1.2)**	(0.4)	–	(0.4)
Deferred tax liabilities	**–**	**–**	**–**	–	(0.1)	(0.1)
Other liabilities	**(76.9)**	**–**	**(76.9)**	(46.1)	(2.8)	(48.9)
Provisions	**(31.8)**	**(36.8)**	**(68.6)**	(31.1)	(27.8)	(58.9)
Total liabilities	**(1,429.5)**	**(278.4)**	**(1,707.9)**	(1,077.9)	(200.2)	(1,278.1)

23. Contingent liabilities, commitments and leasing arrangements

Contingent liabilities

Legislation

As a financial services company, the Group is subject to extensive and comprehensive regulation. The Group must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affects the way it conducts business. Whilst the Group believes there are no unidentified areas of failure to comply with these laws and regulations which would have a material impact on these Financial Statements, there can be no guarantee that all issues have been identified.

Lease arrangements

Operating lease commitments

The Group has entered into commercial leases for premises. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases are as follows:

Operating lease commitments	Less than 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
As at 31 December 2016	**1.5**	**14.7**	**16.6**	**32.8**
As at 31 December 2015	2.2	5.7	3.6	11.5

The Group had capital expenditure commitments contracted with third parties but not provided for of £4.3m as at 31 December in relation to a new premises lease (2015: £nil).

24. Related party disclosures

Key management personnel

Key management personnel refers to the Management Committee of NewDay Group Ltd and Non-Executive Directors.

	Maximum balance during the year £m	**Year ended 31 December 2016 £m**	**As at 31 December 2016 £m**	Year ended 31 December 2015 £m	As at 31 December 2015 £m
Total emoluments	**n/a**	**5.6**	**n/a**	4.8	n/a
Total pension contributions	**n/a**	**0.3**	**n/a**	0.2	n/a
Highest paid key management personnel	**n/a**	**1.3**	**n/a**	1.1	n/a
Highest pension contribution to key management personnel	**n/a**	**0.1**	**n/a**	0.1	n/a
Loans to Directors and key management personnel	**3.4**	**n/a**	**3.4**	n/a	2.7
Interest charged on loans to Directors and key management personnel	**n/a**	**0.1**	**n/a**	0.1	n/a
Loans from related parties	**3.2**	**n/a**	**3.2**	n/a	2.8
Interest paid to related parties	**n/a**	**0.3**	**n/a**	0.3	n/a

Included within loans to Directors and key management personnel is a director loan with a principal balance of £1.8m (2015: £1.8m) which attracts an interest rate of 5% and is partially forgivable based on certain performance criteria being met by the Group. As at 31 December 2016, the loan is included in the Financial Statements at a value of £2.1m (2015: £2.0m). This value takes into account any debt forgiveness clauses which have been partially met or are forecast to be met in the future.

Also included within loans to Directors and key management personnel are interest free loans totalling £1.3m (2015: £0.7m) issued to the Directors and key management personnel of NewDay Cards Ltd. A further amount of £0.6m was issued during the year (2015: repayment of £0.4m). See note 26 for details of movements in the Directors and key management personnel loans after the balance sheet date.

Credit card balances outstanding to key management personnel and their connected parties as at 31 December 2016 were £19k (2015: £14k). All transactions are subject to standard commercial interest rates on an arm's length basis.

Värde Investment Partners, L.P. (US) loaned £1.8m to NewDay Group Ltd in May 2011 which accrues interest at a rate of 12%. The balance as at 31 December 2016 including accrued interest was £3.2m (2015: £2.8m). See note 26 for details of movements in related party loans after the balance sheet date.

Consolidated subsidiaries and structured entities

The statutory consolidated Financial Statements include the Financial Statements of NewDay Group Holdings S.à r.l. and the subsidiaries and structured entities in the following table:

Name	Country of incorporation	**Share class held at 31 December 2016**	**% equity interest at 31 December 2016**	Share class held at 31 December 2015	% equity interest at 31 December 2015
NewDay Holdings Ltd	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay Group Ltd	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay Cards Ltd	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay Ltd	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay Reserve Funding Ltd	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay Partnership Transferor plc	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay Funding Transferor Ltd	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay UPL Transferor Ltd	UK	**Ordinary**	**100%**	n/a	n/a
NewDay Partnership Receivables Trustee Ltd	Jersey	**n/a**	**SE**	n/a	SE
NewDay Partnership Loan Note Issuer Ltd	UK	**n/a**	**SE**	n/a	SE
NewDay Partnership Funding 2014-1 plc	UK	**n/a**	**SE**	n/a	SE
NewDay Partnership Funding 2015-1 plc	UK	**n/a**	**SE**	n/a	SE
NewDay Funding 2015-1 plc	UK	**n/a**	**SE**	n/a	SE
NewDay Funding 2015-2 plc	UK	**n/a**	**SE**	n/a	SE
NewDay Funding 2016-1 plc	UK	**n/a**	**SE**	n/a	n/a
NewDay Funding Loan Note Issuer Ltd	UK	**n/a**	**SE**	n/a	SE
NewDay Funding Receivables Trustee Ltd	Jersey	**n/a**	**SE**	n/a	SE
NewDay Secondary Funding Limited	UK	**n/a**	**SE**	n/a	SE
NewDay Partnership Secondary Funding Ltd	UK	**n/a**	**SE**	n/a	n/a
Invicta Card Services Limited*	UK	**Ordinary**	**100%**	Ordinary	100%
NewDay Loyalty Limited (formerly NewDay Card Services Ltd)*	UK	**Ordinary**	**100%**	Ordinary	100%
Progressive Credit Limited*	UK	**Ordinary**	**100%**	Ordinary	100%
SAV Credit Limited*	UK	**Ordinary**	**100%**	Ordinary	100%

* These subsidiaries are dormant entities as at 31 December 2016.

The parent and the ultimate controlling party of NewDay Group Holdings S.à r.l. up until 26 January 2017 was Invicta EuroCard Services L.P.. Neither Invicta EuroCard Services L.P., nor any other entity controlling it, produces statutory consolidated Financial Statements that are publicly available. On 26 January 2017, the Group was acquired and the parent and ultimate controlling party became Nemean BidCo Limited and Nemean TopCo Limited respectively.

25. Structured entities

The Group has five financing arrangements which involve structured entities.

The Co-brand business is funded by a master trust securitisation, which was put in place on 18 December 2014 and a private securitisation put in place on 3 October 2016. The structures have issued multiple series of debt instruments external to the Group, backed by the cash flow of the Co-brand portfolio. As at 31 December 2016 the master trust has issued two series of publicly listed term debt sold to capital market investors and a senior variable funding note sold to a syndicate of two major banks which acts as a revolving facility. The private securitisation issued a senior variable funding note sold to a major bank which acts as a revolving facility.

The Own-brand business is also financed by a master trust securitisation as well as a private securitisation, both of which were put in place on 24 June 2015. The securitisations have issued multiple series of debt instruments external to the Group, backed by the cash flow of the Own-brand portfolio. As at 31 December 2016 the master trust has issued three series of publicly listed term debt sold to a mixture of capital market investors and major banks and a senior variable funding note sold to a syndicate of two major banks, which acts as a revolving facility. As at 31 December 2016 the private securitisation has issued a senior variable funding note to a major bank which acts as a revolving facility.

25. Structured entities continued

The Unsecured Personal Loan business is funded by a private securitisation put in place on 23 December 2016. The private securitisation issued a senior variable funding note sold to a major bank which acts as a revolving facility.

Within the funding structure of the Own-brand and Co-brand portfolios are structured entities where all of the ordinary shares are held by a third party trustee for the benefit of various charities. The consolidated subsidiary and structured entities table in note 24 has further details of the structured entities consolidated in the Group's Financial Statements for the year ended 31 December 2016, on the basis that the Group has the power to direct relevant activities, is exposed to variable returns of the entities and is able to use its power to affect those returns. Within the master trust securitisations, there are also entities which are not consolidated into the Financial Statements of the Group on the basis that the Group does not have control over these entities because it is not exposed, or has rights, to variable returns of the entities. These entities are NewDay Partnership Securitisation Holdings Ltd in the Co-brand securitisation and NewDay Funding Securitisation Holdings Ltd in the Own-brand securitisation.

26. Post balance sheet events

On 11 October 2016 funds advised by Cinven and CVC agreed to acquire the Group from Värde Partners. Following receipt of regulatory and anti-trust approvals, the transaction completed on 26 January 2017.

As a result of the acquisition the Directors and staff loans detailed in note 12 and 24 were repaid on 26 January 2017, along with the loan from Värde Investment Partners, L.P. (US) described in note 17.

In connection with the acquisition of the Group: (a) Nemean BondCo plc (a wholly-owned subsidiary of Nemean BidCo Ltd) issued £425m Senior Secured Notes comprising £275m Fixed Rate Senior Secured Notes due 2024 and £150m Floating Rate Senior Secured Notes due 2023 (the 'Notes'); and (b) Nemean BidCo Ltd entered into a £30m Super Senior Revolving Credit Facility (the 'RCF'). Following completion of the acquisition on 26 January 2017, NewDay Group Holdings S.à r.l., together with each of its subsidiaries and subsidiary undertakings (with the exception of NewDay Ltd, NewDay Partnership Transferor plc, NewDay Funding Transferor Ltd, NewDay UPL Transferor Ltd and certain dormant entities), are required to adhere to the relevant financing documents in order to: (a) guarantee the Notes and the RCF; and (b) provide security over all or substantially all of their assets (subject to certain exemptions).

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