A non-standard day

Non-Standard Finance plc
Annual report and accounts 2016

NON-STANDARD FINANCE

Our approach at Non-Standard Finance is anything but standard – in branch-based lending and home credit, a key part of our underwriting process is that we meet our customers face-to-face. Whilst we don't get it right all of the time and there is always room for improvement, our model has proven its ability to deliver positive customer outcomes and attractive risk-adjusted returns.


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Overview
Highlights 2016

"We have become a significant player in the non-standard finance market in the UK, serving 137,000 customers through a network of almost 90 locations."

John van Kuffeler
Founder and Group Chief Executive

Operational highlights

- Acquisition of Everyday Loans, including Trusttwo, completed on 13 April 2016
- Full FCA permissions for Everyday Loans, including Trusttwo, received on 20 June 2016
- Strong growth across all three business divisions
- Combined loan book (before fair value adjustments) of c.£165m at 31 December 2016

Visit our website for further information
www.nonstandardfinance.com

Financial highlights

Reported results	Pro forma results[1]
Revenue	**Revenue**
£72.8m	£94.7m
2015: £9.2m	2015: n/a
Operating loss	**Operating profit**
£(5.2)m	£18.7m
2015: loss of £(10.0)m	2015: n/a
Basic and fully diluted loss per share	**Basic and diluted earnings per share**
(2.60)p	3.37p
2015: loss per share of (21.25)p	2015: n/a
Dividend per share	**Dividend per share**
1.20p	1.20p
2015: nil	2015: nil

1. Assuming Everyday Loans (including Trusttwo) was acquired on 1 January 2016 and adjusted to exclude fair value adjustments, amortisation of acquired intangibles and exceptional items. There are no comparative pro forma figures for 2015 as on completion of the acquisition of Loans at Home on 4 August 2015, the Group adopted a more timely approach to recognising impairment. The Group has concluded that any benefit derived from restating the results of Loans at Home from 1 January to 3 August 2015 to reflect this more prudent approach would be more than outweighed by the cost of producing such results.

Overview

At a glance

"Every adult should have access to credit they can afford to repay – we seek to help consumers that are either unable or unwilling to borrow from mainstream financial institutions."

John van Kuffeler
Founder and Group Chief Executive

Who we are

Formed in 2014, Non-Standard Finance has become a leading provider of unsecured credit to UK adults. Listed on the Main Market of the London Stock Exchange, we have almost 90 locations servicing 137,000 customers to whom we have outstanding loans of approximately £165m in aggregate[1]. Our sizeable infrastructure is supported by 537 full-time staff and 785 self-employed agents.

Listed

London Stock Exchange

Locations

88

Customers

137,000

Loan book[1]

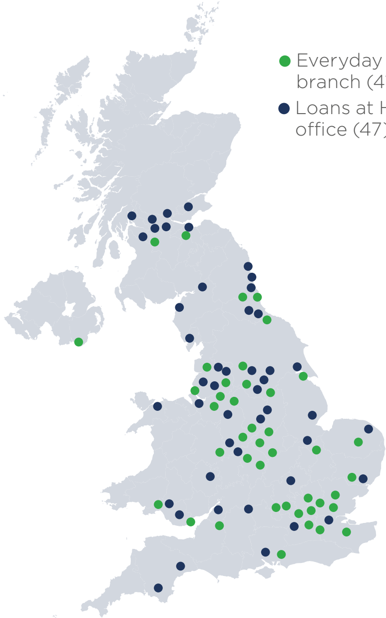
£165m

Staff

537

Agents

785



- Everyday Loans branch (41)
- Loans at Home office (47)

Our business divisions

Branch-based lending

everyday loans

The UK's largest branch-based provider of unsecured loans to sub-prime borrowers.

Loan book[1]

£122.4m

See p.10

Home credit

Loans at Home

The UK's third largest provider of unsecured, home-collected credit.

Loan book[1]

£33.4m

See p.22

Guaranteed loans

TrustTwo JOINED UP BORROWING

A fast-growing player in an expanding market.

Loan book[1]

£8.8m

See p.34

1. Before fair value adjustments.

Why we are different

In branch-based lending and home credit we aim to meet all of our customers face-to-face before we lend to them. Whilst expensive to execute versus some other business models, we believe that this tried-and-tested approach is what separates us from many of our peers and enables us to lend to consumers that many other institutions will not. In guaranteed loans, we are able to operate a purely remote model as the presence of a prime, or near-prime guarantor means that a face-to-face meeting is not required to complete our underwriting process.

Customer touchpoints

The interface between our people and our customers is critical to us making good lending decisions, delivering positive customer outcomes and collecting the monies we are owed. Put another way, the quality of our customer relationships and how we manage them are key drivers of our long-term success.

As a Group, we are focused on ensuring that each customer touchpoint is optimised through our processes and procedures, the systems and infrastructure we deploy to support them, the training and reward structures of our representatives and our overall cultural approach. Each of these elements combine to determine how we behave as a business.

For more details about our culture see p.36

Face-to-face

In branch

- Pre-screened customers are met for up to 45 minutes
- Two-person approach to review of applications
- Branch manager makes final lending decision

41 branches
+14%

In home

- Over 80,000 customer visits each week
- Agent is invited into the home, having received a 'request to call'
- Pre-screening tells agent parameters for possible loan
- Agent explains the process before making a separate visit to make the loan
- Income and expenditure review completed in the home, final decision made by agent

785 agents
+25%

Face-to-face

Customers

Refer and transact

Remote

By web

- Convenient for the customer; cost-effective for the operator
- Customers respond to direct advertising or apply via web search
- Customer details captured online to allow initial screening process
- Application will usually be processed face-to-face (in branch or in the customer's home)

By phone

- Convenient for the customer; cost-effective for the operator
- Customers may respond to direct advertising or via web
- Branch-based lending – operator directs them to nearest branch, driving branch traffic; or may, in a limited number of cases, process application by phone
- Home credit – operator arranges agent visit by phone but transaction is completed face-to-face
- Guarantor loans – application process is completed over the phone

Remote

Refer and transact

Overview

Chairman's statement

Charles Gregson
Non-Executive Chairman

The past year has seen us transform Non-Standard Finance from what was just an idea in 2014, to a substantial listed enterprise with a combined loan book of c.£165m (before fair value adjustments), almost 90 locations across the UK, 137,000 customers, over 500 full-time staff and 785 self-employed agents. Phase one of our plan is now complete and we have the building blocks in place to support further growth in each of our three business divisions.

2016 results

The Group's performance in 2016 was broadly in line with our expectations driven by a strong performance from Everyday Loans which represents 75% of the Group's combined loan book. As noted in the Chief Executive's review on pages 12 to 14, whilst the reported results include just eight months from Everyday Loans and Trusttwo, the underlying performance of the Group as a whole, as illustrated by the normalised pro forma results[1], is significantly better.

Reported revenues[1] were £72.8m (2015: £9.2m) and the Group produced an operating loss of £5.2m (2015: operating loss of £10.0m). This resulted in a reported loss per share of 2.60p (2015: loss per share of 21.25p).

Strategy

As set out in our Strategic Report, we remain focused on serving the needs of consumers who are unable or unwilling to borrow from mainstream institutions. Everything we have seen to date has confirmed that the size of this opportunity remains large – we remain on course to achieve our target of 20% loan book growth across the Group as a whole and a 20% return on assets in each of our operating businesses in the medium-term. Having executed the strategy we set out in our initial prospectus back in 2015, our strategy has evolved and is now focused on the following three elements:

- Being a leader in our chosen markets;
- Investing in our core assets; and
- Acting responsibly.

Each of these is explained in more detail in the Strategic report on pages 15 to 21.

Culture

The Group has only been in its current form since April 2016 and so our culture, or 'the way we do things around here', is continuing to evolve and is heavily influenced by regulation, the Board and also the embedded values and behaviours within each of our operating companies. Whilst a thorough due-diligence process meant that the Board was confident that the culture within each business was broadly consistent, in December 2016 it instituted a formal process to confirm what the Group's culture is, what it should be and to ensure there are effective means to influence it in each of our business areas, not just because a regulator says we should, but because it makes good business sense.

1. Assuming Everyday Loans (including Trusttwo) was acquired on 1 January 2016.

Whilst this exercise is not yet complete, based upon some early results, the following values and behaviours are emerging as being common across all three businesses:

- **Doing the right thing:** we recognise our collective responsibility for delivering great outcomes for our customers. We don't cut corners and always seek the path that is right before the path that is easy.
- **Shared purpose:** we have clear strategic and operational goals and expect all of our representatives to understand and share in that vision.
- **Integrity:** we respect colleagues and other key stakeholders and do what we say we will do.
- **Teamwork:** our businesses are complex and involve many different elements that each represent an important part of our overall business process. By working together we are likely to solve problems more effectively than trying to do things on our own.
- **Communication:** we listen, are well-informed and believe it's our duty to speak up when we disagree, or believe something is not right; we celebrate success and don't blame others when something goes wrong, always learning from our mistakes.
- **Entrepreneurial:** we use our initiative and are prepared to try new things so we can perform better and be the best we can be.

Certain areas of our business represent potential 'hot spots' through the existence of possible conflicts such as incentives that may encourage poor behaviour in order to meet certain performance targets. Managing such conflict is part of the day-to-day management of each of our businesses. Whilst we don't profess to get everything right all of the time, our systems and controls are designed to promote a culture that supports each of our desired behaviours, helping to ensure that we minimise the risk of any material impact on our overall operating and financial performance.

However, as a Board we don't take this for granted. During 2016, each of the Directors spent time at a number of our locations across the country, meeting and spending time with staff and self-employed agents, providing valuable insights into the day-to-day operations of our business.

In future reports, we will provide updates on our cultural approach, how we measure and influence it and highlight any areas of potential risk.

Board

I would like to thank Robin Ashton, who stepped down from the Board in October 2016, for his valuable contribution. As one of the co-founders of the Group, Robin played a vitally important role in helping us through the Group's initial development phase and in building the substantial enterprise that we are today.

In December 2016 we announced some changes to the Board in order to achieve a more conventional management structure. Having previously been Executive Chairman, on 19 December 2016 the Group's founder, John van Kuffeler became Chief Executive Officer and I became Non-Executive Chairman.

Long-Term Incentive ('LTI')

Having consulted extensively with some of our largest shareholders, we plan to seek shareholder approval for a carefully structured LTI for members of the Group's senior management team to be approved at the Annual General Meeting ('AGM') to be held on 9 May 2017. Developed in conjunction with our advisers, the new plan means that the interests of senior management are fully aligned with those of our shareholders.

Full details of the new LTI and a new Sharesave scheme for all employees that we also plan to introduce are set out in the AGM notice.

Final dividend

Having declared a maiden half-year dividend of 0.30p per share in August 2016, the Board is pleased to recommend a final dividend of 0.90p per share (2015: nil), making a total of 1.20p for the year as a whole. If approved by shareholders, this final dividend would represent a meaningful step towards our goal of reaching a payout ratio equal to 50% of normalised post-tax earnings. If approved at the AGM, the final dividend would be paid to those shareholders on the Company's share register on 19 May 2017, with payment being made on 20 June 2017.

Outlook

During the past year we acquired approximately 80% of the current Group while the balance of our business was undergoing a period of significant change and adjustment. Having successfully embedded Everyday Loans and Trusttwo and with a clear focus on existing customers at Loans at Home, we are now well placed for the year ahead.

We have a highly experienced management team, a strong balance sheet and a clear plan to deliver significant revenue and profit growth in each of our three operating divisions over the medium-term. We are optimistic about the Group's prospects in 2017 and believe that the outlook remains bright.

Charles Gregson
Non-Executive Chairman
31 March 2017

Overview
Market opportunity

There is significant demand for non-standard finance in the UK.

Changes to the UK's non-standard consumer finance sector have created a significant opportunity to build a substantial, well-capitalised enterprise, focused on addressing the needs of millions of adults in this large and poorly-served market.

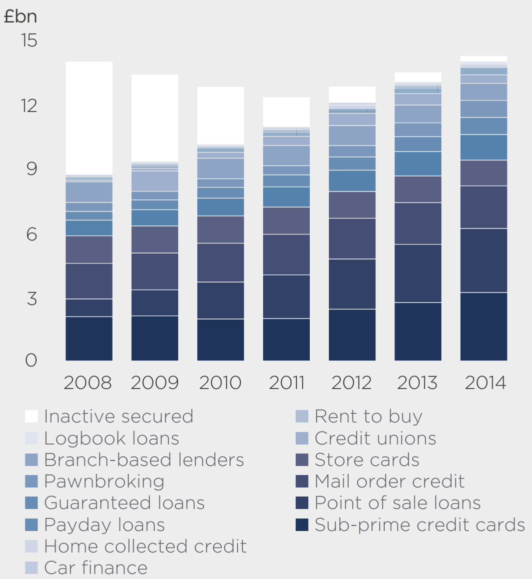
There is a mis-match in the supply of and demand for credit by borrowers who are either on low incomes, are credit impaired or have a low credit score.

On the demand side, over 10 million consumers are either unwilling or unable to borrow from mainstream financial institutions.[1]

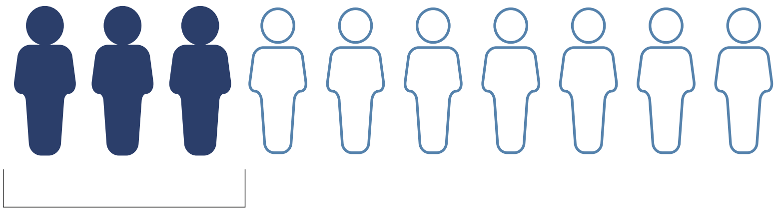
Several factors have contributed to a shortfall in the supply of non-standard consumer finance in the UK: there was a marked reduction in the total amount of credit available to sub-prime borrowers following the financial crisis; there are high barriers to entry in the form of strict regulatory requirements and the need for a robust compliance infrastructure; the specialist nature of the non-standard market means that there is a limited pool of managerial talent; and operators need clear access to long-term and low-cost funding to support future growth.

This mis-match has created a significant opportunity for Non-Standard Finance plc.

The supply of non-standard finance in the UK [1]



Proportion of the UK's working population that is under-served



$\frac{1}{3}$ = c.10m[1]
People

Customer characteristics

Low paid

Low credit status

Credit impaired

1%
of total workforce paid minimum wage and below[2]

16%
of total workforce self-employed[3]

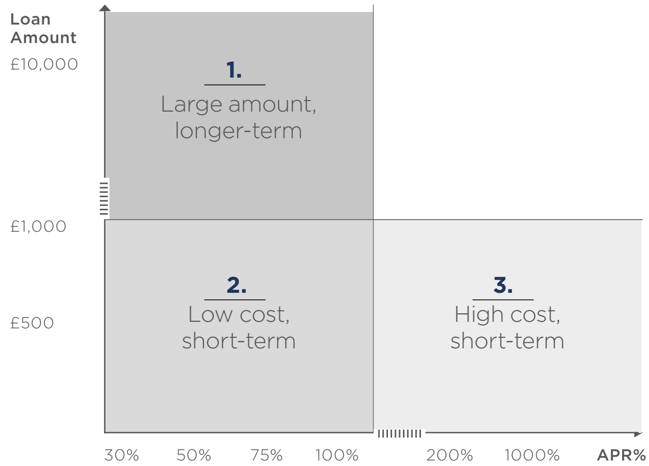
912,000
Consumer County Court Judgments[4]

2.3m
Recently arrived migrants[5]

1. L.E.K. Consulting – Executive Insights Volume XVIII, Issue 10, 15 April 2016; ONS: UK Labour Market, February 2017.
2. ONS: Low pay in the UK: April 2016.
3. ONS: Self-employed.
4. Registry Trust Limited press release, 1 February 2017.
5. Number of immigrants to the UK, June 2012–June 2016 – ONS: overview of the UK Population, December 2016.

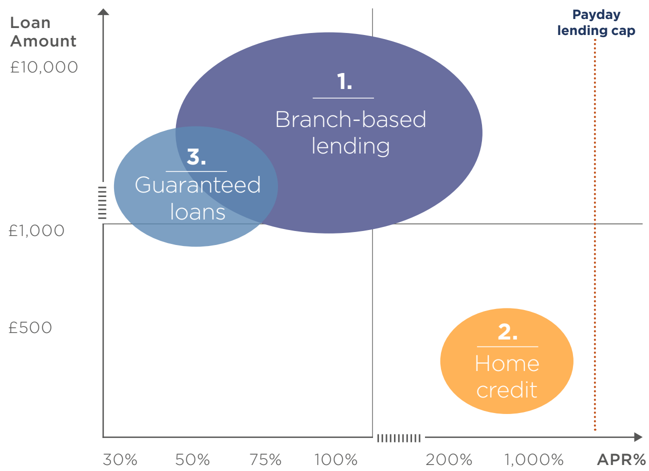
The UK consumer credit market can be split into three different segments:

1. Large amounts, over a longer-term which tend to be at lower annual percentage rates ('APRs')
2. Small amounts, over the short-term at lower APRs
3. Small amounts over the short-term at higher APRs



Our three divisions are seeking to address different areas of the market:

1. Branch-based lending
2. Home credit
3. Guaranteed loans



Whilst we operate in competitive markets, we believe our businesses are well-positioned.

We are well-placed with leading positions in branch-based lending and home credit and have a scalable presence in guaranteed loans.

everyday loans — #1 in branch-based lending

Loans at Home — #3 in home credit

TrustTwo (JOINED UP BORROWING) — Positioned to become #2 in guaranteed loans

Strategic report
Business model

Our purpose:

To help those who need credit but are either unwilling or unable to borrow from mainstream institutions.

Building a personal relationship with our customers is key and enables us to deliver positive customer outcomes and attractive returns for shareholders.

What sets us apart:

High-quality and experienced management

NSF is led by a highly experienced Board and operational management teams with many years of experience and a proven track record of creating value for shareholders.

See governance section on p.39

Infrastructure and scale

We invest in extensive agent and branch networks to enable regular face-to-face contact with our customers. We also develop user-friendly technology platforms which improve our customer service and collection capabilities. Our infrastructure is highly scalable.

Rigorous compliance and risk management

We have developed a robust risk management framework and established a Risk Committee which oversees risk assessment and advises the Board on the Company's overall risk appetite, tolerance and strategy.

See principal risks section on p.24

A culture focused on delivering positive customer outcomes

Having assembled three different businesses in a short period of time, our culture as a group is continuing to evolve. However, 'providing a helping, but firm hand to our customers' is an ethos that runs deep through each of our operating companies. We are entrepreneurial and are not afraid to try new things. We don't blame others and learning from our mistakes is how we improve, driving better outcomes for customers and greater long-term returns for our shareholders.

See culture and stakeholder management section on p.36

Access to long-term, low-cost funding

NSF has a clear financing strategy in place, utilising a combination of debt and equity funding to help grow our businesses and enabling them to generate strong cash flow over the medium-term.

See governance section on p.39

What we do:

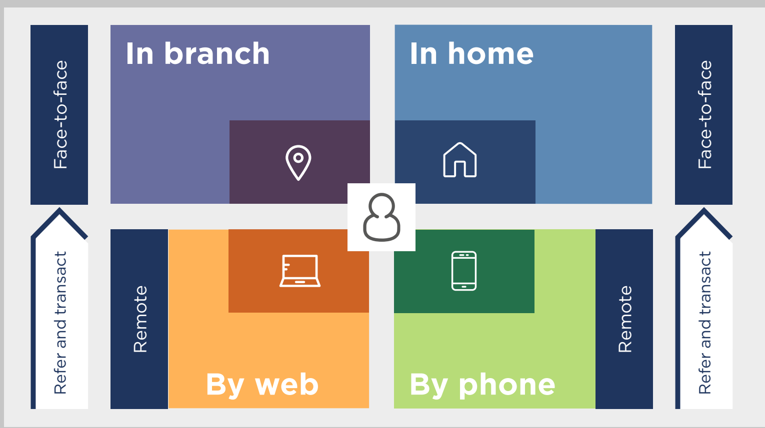
Source long-term capital

Develop focused, tailored and affordable loan products

Attract customers

Lend responsibly

- Identify suitable customers
- Assess credit via external and internal scorecard
- Understand customer needs
- Assess affordability (income and expenditure)
- Tailor product to suit their needs
- Ensure customer understands



Collect responsibly

- Encourage timely payment
- Show forbearance if and when required
- Identify vulnerability
- Suggest sources of support if in difficulty

Risks

- Conduct
- Regulation
- Credit
- Liquidity
- Competition
- Business strategy and operations
- Reputation

Reinvest in the business

Reward providers of capital

- Debt
- Equity

Costs

- Network costs
- Interest
- Taxes
- Losses/impairments

How we create value:

Customers

Feefo rating[1]
4.8/5

FOS complaints[3]
0.02%

Net promoter scores[2]
98%

Shareholders

Loan book growth

Everyday Loans
18.0%

Loans at Home
19.3%

Trusttwo
18.9%

Return on assets

Everyday Loans
17.1%

Loans at Home
6.7%

Trusttwo
8.5%

Payout ratio[4]
36%

People

Total training days[5]
2,107

Communities

Number of staff
537

Number of branches/offices
88

Number of self-employed agents
785

1. www.Feefo.com is a third-party customer review site. It invites customers at Everyday Loans and Trusttwo to review our performance. The rating shown is the aggregation of all scores received for Everyday Loans with a maximum score of 5. The same score for Trusttwo was 4.7 out of 5.
2. Percentage of customers that were 'very satisfied' or 'quite satisfied' with overall services at Loans at Home – last survey based on 896 responses (April to December 2016).
3. Number of upheld cases at the Financial Ombudsman Service as a percentage of number of loans written in 2016.
4. Based upon 2016 pro forma normalised earnings per share of 3.37p and a total dividend per share of 1.20p.
5. Total for Everyday Loans, Loans at Home (staff and agents) and Trusttwo in 2016.

Strategic report

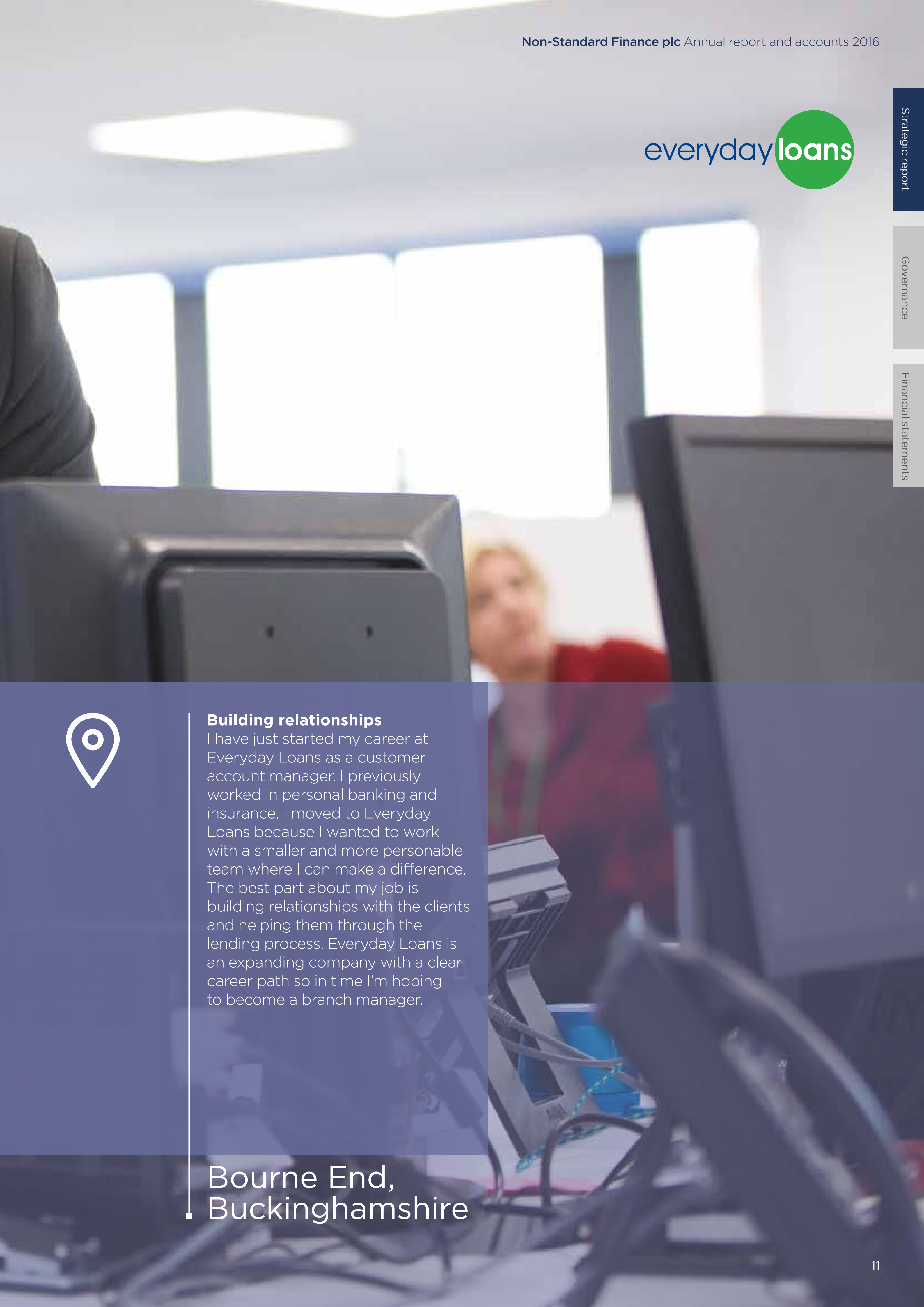
Business model in action

Customer touchpoint: branch-based

A non-standard day for Govind

"Everyday Loans genuinely wants to help people who aren't in the best position financially. It treats customers as individuals and not as statistics."

Govind
Everyday Loans, Bourne End, Buckinghamshire



Building relationships

I have just started my career at Everyday Loans as a customer account manager. I previously worked in personal banking and insurance. I moved to Everyday Loans because I wanted to work with a smaller and more personable team where I can make a difference. The best part about my job is building relationships with the clients and helping them through the lending process. Everyday Loans is an expanding company with a clear career path so in time I'm hoping to become a branch manager.

Bourne End, Buckinghamshire

Strategic report

Group Chief Executive's Report

John van Kuffeler
Group Chief Executive

Results

The past year has been transformational for the Group with the completion of the acquisition of Everyday Loans and Trusttwo, new bank facilities in place and a carefully planned programme of investment in all three businesses.

Against this background, I am pleased to report normalised revenue of £81.1m (2015: £14.7m) and normalised operating profit of £13.8m (2015: loss of £0.5m)[1]. Reported revenue after fair value adjustments was £72.6m (2015: £9.2m) and reported loss before interest and tax was £5.8m (2015: loss of £16.2m). The Group's reported results include just over eight months' performance from Everyday Loans and Trusttwo which were acquired in April 2016 and that together represent approximately 80% of the Group's net loan book (before fair value adjustments). The reported results are also significantly affected by temporary additional commission paid to newly signed-up agents at Loans at Home, fair value adjustments and the amortisation of acquired intangibles.

To provide investors with a more representative picture of the Group's underlying performance, we have also produced pro forma normalised numbers, as if Everyday Loans and Trusttwo had been acquired at the start of the year and before the impact of fair value adjustments, the amortisation of acquired intangibles and exceptional items. There are no comparable pro forma numbers for 2015 as the Group believes that any benefit derived from restating the results of Loans at Home from 1 January to 3 August 2015 would be more than outweighed by the cost of producing such results.

Pro forma normalised revenues and operating profit were £94.7m and £18.7m respectively, and pro forma normalised earnings per share was 3.37p (reported loss per share was 2.60p). I am pleased that the Board is recommending an inaugural final dividend of 0.9p, making a total of 1.2p for the year.

The size of our combined net loan book across all businesses as at 31 December 2016 was £164.6m before any fair value adjustment (2015: £28.0m) and £180.4m after fair value adjustments (2015: £28.4m) representing a 489% increase from 31 December 2015, of which a 368% increase relates to the acquisition of Everyday Loans.

Everyday Loans

The acquisition of Everyday Loans completed on 13 April 2016. Since then, the business has performed strongly with reported operating profit of £6.8m (2015: n/a), reported normalised operating profit of £14.8m (2015: n/a) and pro forma normalised operating profit of £19.4m (2015: n/a). We have expanded the branch network, with five new branches opened since completion, as well as broadened the product offering to include loans at higher APRs. We also adjusted the pricing of certain products in accordance with a new and refined credit scorecard resulting in an increased yield on new business volumes from an average of 52% at the time of acquisition to 57% in December 2016.

Loans at Home

I am pleased to report loan book growth of 19% at Loans at Home in 2016, a year of transformation for the business, including a new management team and investment in a programme of significant growth.

1. Adjusted to exclude fair value adjustments, amortisation of acquired intangibles and exceptional items.

This included the recruitment of 25% more agents; a significant upgrade to the regulatory and compliance functions; the roll-out of new technology; and the testing of a number of alternate growth strategies. Reported operating profit was £1.4m and reported normalised operating profit was £1.9m, both of which are after deducting temporary additional agent commissions of £1.8m that were paid to newly recruited agents while they establish a critical mass of customers (for the period 4 August 2015 to 31 December 2015: operating profit of £2.1m). While our programme of investment held back Loans at Home's profit performance in 2016, we have taken a number of steps to ensure that we are well-placed to deliver a significant increase in profitability in 2017.

Trusttwo

Following its acquisition and recognising its strong growth potential, we established Trusttwo as a separate entity with its own management team and profit and loss responsibility. This had an immediate and positive impact on performance and Trusttwo delivered reported and reported normalised operating profit of £0.5m (2015: n/a) and, on a pro forma basis, an operating profit of £0.7m (2015: n/a).

Strategy

Having executed the strategy as set out at the time of the Group's Initial Public Offering in 2015, we have revised the Group strategy and this is set out in more detail on pages 15 to 21 of the Strategic report.

Financing

During the year the Group drew down on its new debt facilities and has recently extended these so that they total £115m of committed facilities, with an option to increase this to £140m, with the banks' consent. The facilities, which are both for a three-year term, expire in June 2019 and March 2020 respectively and the Group is actively reviewing a variety of financing options that could underpin the Group's long-term growth plans. As at 31 December 2016 the Group had gross borrowings of £87.3m and cash at bank of £5.2m.

Regulation

Everyday Loans, including Trusttwo, received full authorisation from the Financial Conduct Authority ('FCA') on 20 June 2016.

Why are APRs so high?

This is the question we get asked most often. To answer it, we need to explain what happens to the revenue we generate.

The figures shown here are illustrative and are for NSF Group as a whole, based upon the 2016 pro forma normalised results. Whilst each of our three businesses has different dynamics, we have sought to provide an NSF overview as follows.

Revenue
Having sourced sufficient low-cost funding to provide loans to our customers, the interest income we receive represents the Group's revenue. This is then used to meet all of the Group's obligations as well as to reward the providers of capital and invest in future growth.

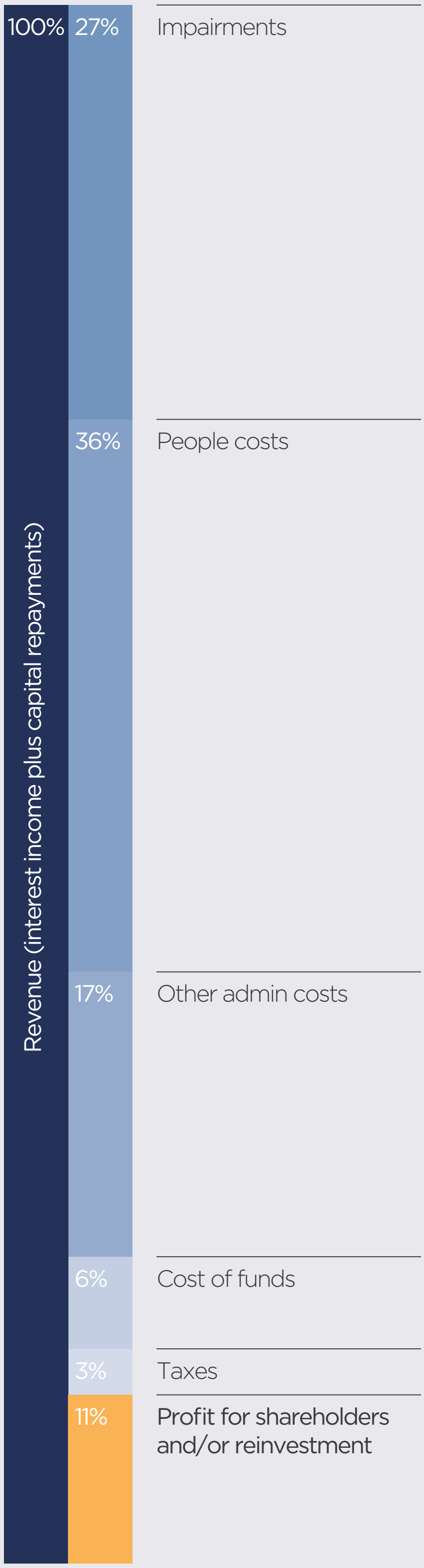
Impairments
Lending to customers with low or impaired credit ratings is a risky business and a significant proportion of revenue is lost through the impairment of loans that don't get repaid. Higher risk customers require higher impairments that in turn tend to result in higher APRs.

People costs
Staff and self-employed agent costs are significant as we have established large networks through which we engage with our customers in branch, or in their home. In home credit, temporary support payments to newly arrived agents are key to allowing them the time to build up a sufficient number of customers in order to earn the level of income they require through our commission structure.

Other admin costs
Property, IT and other infrastructure and support-related costs are significant for branch-based lending and home credit, requiring higher APRs. Business models with lower infrastructure costs, tend to attract lower APRs.

The size of loans being offered is also a factor in driving APRs – smaller loans tend to attract higher APRs as many of the costs of delivery are the same, irrespective of the size of loan issued.

Cost of funds and taxes
Whilst we have sourced significant equity capital, a large part of our loan book is funded by debt facilities from third-party banks. As a relatively small UK business, we pay tax at the marginal rate, leaving a balance to reward shareholders through dividend payments and/or by reinvesting funds to deliver future growth.



Strategic report
Group Chief Executive's Report continued

Along with its major competitors, Loans at Home is currently operating under an interim consumer credit permission from the FCA, having submitted its application for full authorisation in June 2015. Whilst we remain in close contact with the FCA, we have received no indication on when we might receive full authorisation but believe that approval is likely to be given at the same time as the other major listed home credit providers.

As part of its scheduled review of changes made to the regulation of high-cost, short-term credit, the FCA has extended its review to include other forms of high-cost credit, including home credit and guaranteed loans. We welcome this review and have submitted our own views to the FCA that we hope will provide stakeholders with a better understanding of both the benefits as well as the risks involved in serving this large and important segment of the UK's non-standard finance market. We believe that the FCA's approach and framework for the regulation of consumer credit are working well and while there is always room for improvement, we believe the current regime has the controls needed to maintain high standards and minimise the risk of customer detriment as a result of poor conduct.

A summary of some of the recent regulatory developments that may have a bearing on the Group's businesses is set out below.

Final dividend
Having declared a half year dividend of 0.3p per share (2015: nil), the Board is delighted to recommend a maiden final dividend of 0.9p per share (2015: nil) making a total dividend for the year of 1.2p per share (2015: nil). This represents a pay-out ratio of 36% based on pro forma normalised earnings.

The dividend policy objective is to pay-out a dividend equal to 50% of normalised annual post-tax earnings.

If approved by shareholders at the forthcoming Annual General Meeting on 9 May 2017, the final dividend of 0.9p per share (2015: nil) will be payable on 20 June 2017 to those shareholders on the register of shareholders on 19 May 2017 (the 'Record Date').

Current trading and outlook
We have made a good start to the year with each of our business divisions performing well.

We are continuing our programme of investment in 2017 across each of our three businesses. At Everyday Loans we plan to open up to 12 new branches in the current year as well as continue to invest in new product development. As our largest business, we continue to believe that its market position, proven infrastructure and business model will deliver substantial revenue and profit growth.

We continue to see significant potential at Loans at Home and having made a considerable investment in 2016, we plan to maximise profit performance in 2017.

At Trusttwo, with the management and requisite infrastructure now in place we plan to drive increased volumes through a series of fully-integrated marketing campaigns using third-party brokers and direct marketing initiatives. We are also starting to see the benefit of leveraging our branch network as a unique and additional source of customer traffic.

Despite macroeconomic uncertainties and the effects of inflation starting to come through, we believe that our customers are well-placed to manage as they have benefited from an improvement in their incomes in the last few years and, compared to the more financially-stretched prime and near-prime borrowers, have had relatively limited access to credit.

We have a strong balance sheet with excellent positions in our chosen segments and are therefore well-placed to take advantage of the considerable opportunities that exist in all three business areas. We remain optimistic about the Group's prospects.

John van Kuffeler
Group Chief Executive
31 March 2017

Regulatory overview
Each of the Group's main operating subsidiaries is regulated by the FCA. During 2016 there were a number of regulatory developments that may have a bearing on the Group's activities and business operations in the future. Some of the more pertinent developments are summarised below.

- On 26 May 2016 the FCA responded to the Competition and Markets Authority ('CMA') recommendations on high-cost, short-term credit ('HCSTC') and stated that it would make only minor changes to its suggested rules in this area. The new rules came into force on 1 December 2016.
- On 30 June 2016 new rules on dispute resolution came into force extending the length of time that firms have to handle complaints from "next business day" to the close of business three days after the date of receipt. All complaints must be reported within three business days.
- On 25 October 2016 the FCA announced a consultation on proposed guidance setting out its proposed interpretation of the law in relation to guarantor loans. This guidance was finalised on 19 January 2017 and the FCA has confirmed that there is no requirement for a statutory default notice to be issued where payment is requested of (not demanded), or volunteered by a guarantor and continuous payment authority ('CPA') can be used against the guarantor provided notice is given sufficiently in advance (five working days is suggested) to afford them the opportunity to object/cancel the CPA.
- On 29 November 2016, the FCA issued a call for input to inform further work on high-cost credit, including a review of the HCSTC price cap. Non-Standard Finance plc has submitted its views to the FCA.
- The FCA published its thematic review on early arrears management in unsecured lending in December 2016. Its findings were that many firms are improving the way they deal with customers in early arrears. However, in some areas consumer credit firms still need to improve their practices.
- Also in December 2016 the FCA launched a consultation on the future funding of the Financial Services Compensation Scheme ('FSCS') and has also launched a consultation on a number of specific changes to its scheme rules. One proposal is that the FSCS should be extended to cover UK-based debt management firms and that this should be funded by a levy on consumer credit firms. According to the FCA and assuming an annual requirement of £45m, this would equate to a levy of 0.22% of annual income on all consumer credit firms.

As at 31 March 2016 the FCA had authorised 30,309 consumer credit firms and a further 3,544 Interim Permissions were still awaiting to complete the process. In home credit, over 386 firms had been authorised as at 31 March 2016.

Strategy

The Group has become the UK's largest branch-based provider of unsecured credit, the third largest provider of home-collected credit and has an established platform in guaranteed loans.

Our strategy is focused on three elements:

1 Being a leader in each of our chosen segments of the UK's non-standard finance market.

2 Investing in our core assets: our distribution networks, people, technology and brands.

3 Acting responsibly.

The following pages summarise each of these three elements and provide KPIs that we use to monitor our performance. Where KPIs are not yet in place, the 2016 measure and medium-term target are shown as "n/a".

Strategic report
Strategy

1

Being a leader in each of our chosen segments of the non-standard finance market.

"We want to be the best at what we do in delivering great customer outcomes and long-term returns for shareholders."

John van Kuffeler
Founder and Group Chief Executive

Whilst we continue to monitor developments across a number of sub-segments of the UK's non-standard finance market, our current focus is on the following segments:

- **Branch-based, unsecured lending;**
- **Home credit; and**
- **Guaranteed loans.**

Being a leader means different things to different people. For us this is not just about scale, although scale is important and we believe it is a key driver of long-term success. At Non-Standard Finance, leadership means being the best at what we do – not just from a customer's perspective, but also from that of our employees, our regulator and each of our key stakeholders.

The nature of each of our businesses, where many new customers are referred by existing customers or are themselves repeat customers, means that great service is a not an option – it is a prerequisite for long-term success. Get that right and scale, revenues and profits will naturally follow.

Our view of what good lending looks like is not new, it is the same as it was hundreds of years ago. For our chosen customer segments, we believe it requires that we:

- know our customer really well;
- tailor our products to suit their needs;
- don't provide them with things they don't want; and
- if they get into difficulty, work with them so that together a satisfactory solution can be achieved for both borrower and lender.

To do this successfully, we need the requisite infrastructure and culture at all levels of our business. For more details on our culture and the steps we are taking to nurture and protect it, see Culture and Stakeholder Management on pages 36 to 38. Our approach to being a leader in each of our three business segments is summarised below:

- **Branch-based lending** – Everyday Loans is already a market leader in terms of its scale and we believe that the quality and breadth of product offered are unrivalled. Whilst our customer satisfaction, as measured by Feefo[1] is at 4.8 (out of 5), we are not complacent – our reputation has been hard won over the past decade, but could easily be lost and so we remain dedicated to protecting as well as promoting our franchise through a continued programme of investment.

- **Home credit** – Loans at Home is ranked third in the market by numbers of customers and self-employed agents.

  Upgrading our compliance procedures and systems, including our move to using hand-held technology, are all part of our plan to become best-in class.

  Other areas of investment include continuing to improve the quality of our self-employed agent network through regular training, appropriate incentives and high quality management information to help improve performance.

- **Guaranteed loans** – Trusttwo is one of a number of 'tier two' players in terms of scale. Having launched in 2014 it has already grown fast to accumulate a loan book of £8.8m. However, we want to grow much bigger and we plan to do it quickly. Our goal is to become the clear number two behind the market leader, an objective we think is eminently achievable over the next few years. Our platform is highly scaleable and we have access to the Everyday Loans branch network that acts as an additional source of new customers.

1 www.Feefo.com – an online customer feedback engine.

Strategic report

Key performance indicators

KPI measure	Rationale	Medium-term target	2016 KPI[1]
No. of active customers	Evidence that our reach and quality of service is driving customer volumes.	Everyday Loans 50,000 Loans at Home 95,000 Trusttwo 10,000	Everyday Loans 39,600 Loans at Home 93,600 Trusttwo 3,300
Customer satisfaction	A lead indicator of future business volumes given our numbers of repeat customers and customer referrals.	Everyday Loans[2] >4.5/5 Loans at Home[3] >95% Trusttwo[2] >4.5/5	Everyday Loans[2] 4.8/5 Loans at Home[3] 98% Trusttwo[2] 4.7/5
Annual loan book growth	By growing our loan book we can invest in reaching more customers and deliver attractive returns to shareholders.	Everyday Loans 20% Loans at Home 20% Trusttwo 20%	Everyday Loans 18% Loans at Home 19% Trusttwo 19%
Risk adjusted margin[4]	Each of our three businesses has very different dynamics. This measure takes into account the different revenue models as well as the different rates of impairment.	Everyday Loans 35% Loans at Home 95% Trusttwo 30%	Everyday Loans 35.3% Loans at Home 97.3% Trusttwo 31.9%
Return on assets[5]	Measured as pro forma normalised operating profit before exceptional items as a percentage of average loan book, this shows we are allocating capital properly and delivering the returns required by our shareholders. Whilst not yet at our target, we remain focused on achieving this in the medium-term.	Everyday Loans 20% Loans at Home 20% Trusttwo 20%	Everyday Loans 17.1% Loans at Home 6.7% Trusttwo 8.5%

1. There are no comparative pro forma figures for 2016. (See 'Context for results in the 2016 Financial review on page 27).
2. www.Feefo.com is a third-party customer review site that invites our customers to review our performance. The rating shown is the aggregation of all scores received and is out of a maximum score of 5.
3. % of respondents to a customer survey that said they were very satisfied or quite satisfied. 2016 KPI relates to period April–December 2016 based on 896 responses.
4. Revenue less impairment as a percentage of average loan book, excluding fair value adjustments (12-month average).
5. Pro forma normalised operating profit as a percentage of average loan book excluding fair value adjustments (12-month average).

Strategic report

Strategy

2

Investing in our core assets: our distribution networks, people, technology and brands.

"Future profits will, in part, be driven by our ability to both sustain and grow our already sizeable pool of tangible and intangible assets through a carefully managed programme of investment."

Nick Teunon
Co-founder and Chief Financial Officer

The nature of our business means that, other than the loans we make to customers, our core assets tend to be intangible in nature and include things such as distribution networks, our people, our technology and our brands.

- **Distribution networks** – As face-to-face contact is at the heart of our lending process (and also collections, in the case of home credit), ensuring that we maximise our customer reach is a key success factor. Being close to our customers and potential customers can make a difference to our operating performance. We already have almost 90 locations across the UK but believe there is scope to increase this significantly over the next few years, particularly at Everyday Loans.

- **People** – As set out on page 3, the interaction between our own representatives and our customers is at the heart of our business model. We seek to attract and retain a high-quality workforce by investing in training and having a highly-targeted incentive plan that rewards both financial results and behaviours that drive long-term value and positive customer outcomes. We seek to know more than our peers and are prepared to use that intelligence to our advantage: either by being first, or perhaps by being last and learning from the mistakes of others. We aim to encourage and reward the right behaviour by all our representatives.

- **Technology** – Whilst the business model in both branch-based lending and home credit is founded upon face-to-face contact, technology plays a significant role in enabling these businesses to operate effectively. Data management is key, both for managing and monitoring customer performance but also by helping us optimise our business through highly granular management information. In Everyday Loans we made a substantial investment in 2016 when we migrated our entire systems infrastructure to a new supplier. At Loans at Home we began to roll-out the first of our mobile applications for agents to use in the field and also began moving to a cloud-based systems architecture, that will drive operational efficiencies and reduce costs. As a remote lending platform, Trusttwo is wholly reliant on our systems infrastructure and having established a stand-alone management team, we have begun the transformation of our online presence with a new website and customer journey that will be launched during the first half of 2017.

- **Brands and marketing** – The significant developments in technology have shifted the way that consumers research and buy a variety of different products, including financial services. We plan to attract an increasing number of applicants through digital channels, requiring a multi-channel approach to marketing and brand support. Currently, we are working with third parties to help us develop these channels. Depending upon their progress, we may decide to bring such expertise in-house at some point in the future.

Strategic report

Key performance indicators

KPI measure	Rationale	Medium-term target	2016 KPI[1]
Number of Everyday Loans branches	By increasing our geographic coverage we can be closer to customers, making it easier for them to come and meet with us.	Everyday Loans 55-60	Everyday Loans 41
% of agents that are within 30 minutes travel time of their customers	We want agents to be close to their customers, making it easier to see them regularly.	Loans at Home >90%	Loans at Home 93%
People turnover	We aim to keep this within industry norms by offering competitive financial rewards and creating environments where people enjoy their work.	Everyday Loans 15% Loans at Home[2] <5% Trusttwo[3] 15%	Everyday Loans 15% Loans at Home[2] 4% Trusttwo[3] 6%
% of loans booked in the year to new customers[4]	We need to continue to attract new customers as well as look after existing ones if we are to succeed.	Everyday Loans 65-70% Loans at Home 15-20% Trusttwo 65-70%	Everyday Loans 67% Loans at Home 24% Trusttwo 80%

1. There are no comparable pro forma figures for 2015 (see 'Context for results' in the 2016 Financial review on page 27).
2. Average monthly turnover of self-employed agents.
3. Average from July 2016.
4. Proportion of loans booked in a year to new or previous borrowers (i.e. excluding existing borrowers).

Strategic report

Strategy

3

Acting responsibly.

"By placing responsibility at the heart of our business strategy, we are determined to manage and carefully contain both existing and future risks that may arise from our own actions, or the actions of others."

Heather McGregor
Non-Executive Director
and Chair of the Risk Committee

The digital age provides instant access to sometimes distant, disparate and multiple interest groups so that in a corporate sense, there is 'no hiding place' should a company fail in its duties to key stakeholders.

Generations of value creation can be lost in a single incident if a company fails to do the right thing, irreparably damaging the company's reputation with a significant impact on customers, suppliers and other stakeholders.

But the power of modern communications can also be used to promote good news – stories of success and achievement that can reinforce the reputations of organisations that are making a genuine contribution to society and not just producing a return for their owners.

The history and values of our operating companies, together with the experience of our Board and senior management team, have resulted in a clear recognition that how we behave as a business is instrumental in both safeguarding the value already created, and also in propagating the creation of value in the future.

As a result, we are focused on fostering a culture that strikes an appropriate balance of interests for each of our key stakeholders.

You will read many times in this annual report that delivering positive outcomes for our customers lies at the heart of our business. However, it is clear that if we fall short in other areas then our ability to achieve this primary goal may well be impeded.

We seek to consider how our behaviour and conduct might impact each stakeholder group whether they be customers, staff, self-employed agents, suppliers, our environment or the communities where we have a physical presence.

In addition to key customer metrics that are captured as part of our performance measurement, we have identified the following KPIs to help us monitor our behaviour as a business.

For more information about our cultural approach, please see pages 36 to 38.

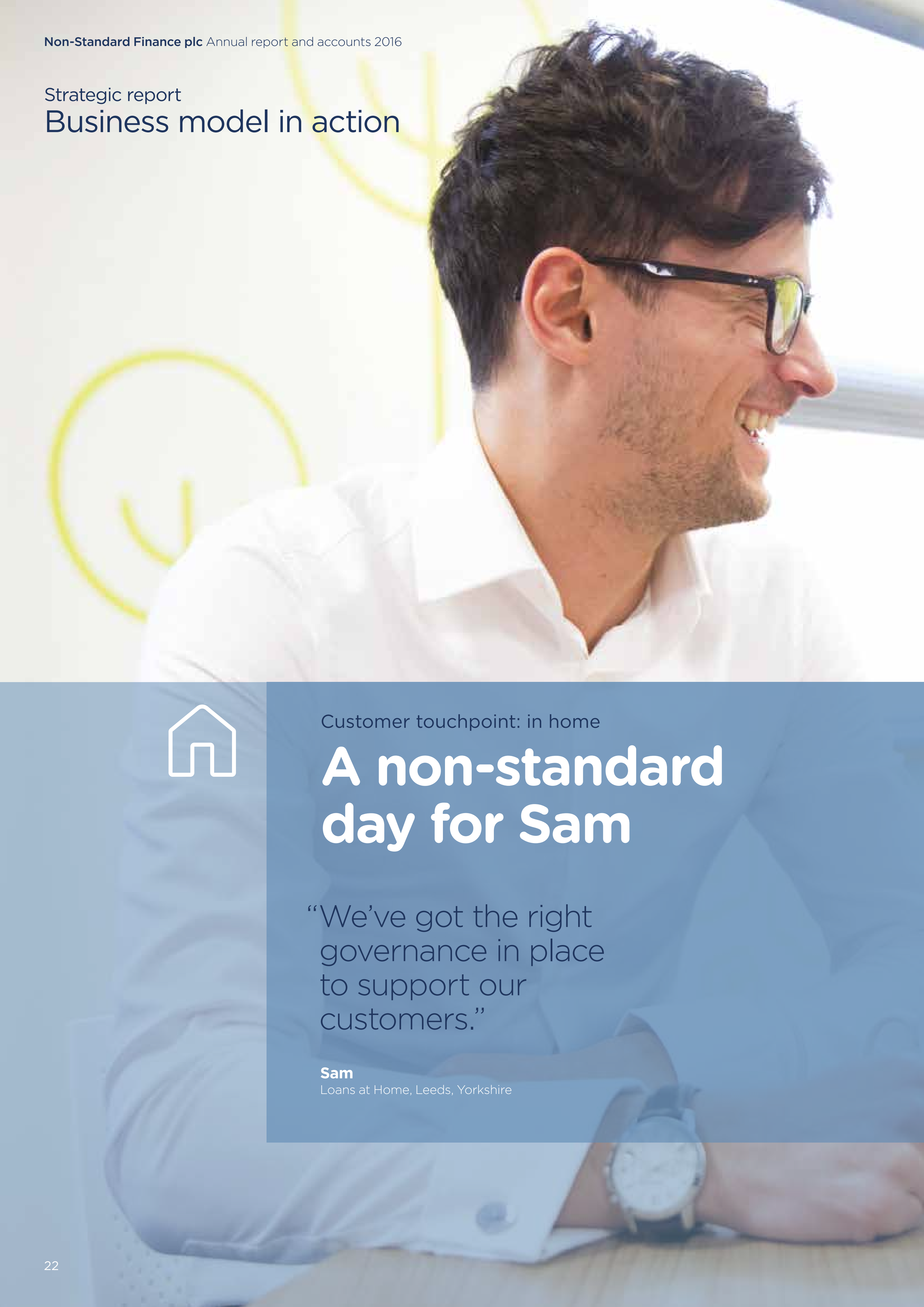
Key performance indicators

KPI measure	Rationale	Medium-term target	2016 KPI[1]
Impairment as a % of revenue[2]	Lending is easy, lending profitably is more difficult – this measure helps to tell us that we have the balance right between growth and short-term profitability. Grow too quickly or lend when you shouldn't and impairment will increase to unacceptable levels.	Everyday Loans 20-25% Loans at Home 30-35% Trusttwo 13-17%	Everyday Loans 20.0% Loans at Home 36.3% Trusttwo 14.8%
Number of FOS complaints upheld as a % of total number of loans made	Whilst focused on delivering great customer outcomes, we don't get everything right all of the time. This measure shines a light on areas of our service to customers that need to improve.	Everyday Loans <1% Loans at Home <1% Trusttwo <1%	Everyday Loans 0.1% Loans at Home 0.0% Trusttwo 0.0%
% workforce engaged in pro bono activity across the Group	In 2017 we plan to introduce a Group-wide charity policy including a provision for staff to give up to eight hours each year to one of the Group's chosen charities or an approved activity that the employee is keen to support.	10-15% in the previous 12 months	n/a
Staff engagement surveys	With over 500 staff and their importance in delivering a great service, engagement is critical and without it we will not succeed. During 2017 we will be conducting surveys across each of our businesses in order to establish a baseline from which we can set a realistic medium-term target.		
Charitable giving	In 2017 the Group plans to adopt a formal charity policy that will provide financial support for debt-related as well as other charities.		

1. There are no comparable pro forma figures for 2015 (see 'Context for results' in the 2016 Financial review on page 27).
2. Pro forma normalised impairments as a percentage of pro forma normalised revenue.

Strategic report

Business model in action



Customer touchpoint: in home

A non-standard day for Sam

"We've got the right governance in place to support our customers."

Sam
Loans at Home, Leeds, Yorkshire

Providing an invaluable service
I've got over 15 years' management experience of working within all three lines of defence in the financial services sector (front-line operations, quality assurance and internal audit). I really enjoy identifying risks and ensuring the right controls are in place to manage and monitor them. It's good to know my work is helping the Company and everyone who works here. I feel like I'm always improving something and learning something new.

Leeds, Yorkshire

Strategic report
Principal risks

The scale and complexity of the Group's business mean that there are potential risks and uncertainties that could have a material impact on the Group's performance and that could cause actual results to differ materially from both expected and historic results.

The table below and overleaf highlights each of the principal risks identified by the Board, what we are doing to manage them, whether the risk has increased, decreased or stayed the same over the past year and where there has been a change, a brief explanation as to why the change has occurred.

For further information on our approach to risk, please see the Risk Committee report on page 50.

Risk/definition	Mitigation	Change in 2016	Explanation
Conduct			
Inappropriate or sub-standard behaviour by the Group's representatives.	• Extensive training • Monitoring of customer complaints • Balanced incentive programme • Clear policies and procedures, including whistleblowing • Diligent application of 'Three Lines of Defence': – policies, procedures and quality assurance in customer-facing roles; – compliance and conduct assurance; and – internal audit.	Decreased	There continues to be a high level of media and political interest in the behaviour of consumer credit firms, coupled with a series of thematic reviews by the FCA that may have a direct or indirect impact on the Group's businesses. However, the Group has already improved its policies and procedures and invested heavily in ensuring it maintains the highest standards of compliance.
Regulation			
All licensed firms are subject to a rigorous licensing process as well as strict ongoing supervision by the FCA. Non-compliance can result in fines or loss of approvals to operate. Key regulatory developments in 2016 are summarised on page 14.	• Active engagement with the FCA as well as industry peers • Diligent monitoring/assessment of all regulations both in-house as well as through external advisers • An active regulatory affairs programme identifying and addressing the concerns of key stakeholders	Unchanged	The regulatory framework is always subject to change. While Everyday Loans (including Trusttwo) has received its full licence from the FCA, together with other leading home credit firms, Loans at Home is operating under an interim consumer credit permission from the FCA. A continuous process of investment ensures we meet all of our regulatory obligations.
Credit			
Any marked increase in the rates of impairments or defaults by the Group's customers could impact the performance of the Group.	• Detailed weekly and monthly management information on historic and expected future credit performance • Continuous process of review and refinement of the each business's credit scorecard and lending criteria • Regular credit committee reviews of policies and outcomes	Unchanged	Higher levels of impairment may indicate a need for some fine-tuning of certain policies and procedures during periods of strong growth.

Decreased Increased Unchanged

Strategic report
Governance
Financial statements

Risk/definition	Mitigation	Change in 2016	Explanation
Business strategy			
A failure to execute and integrate acquisitions (including technology), or to execute the Group's strategy as planned, may increase the risk of financial loss.	• Detailed due diligence is completed on all acquisitions with advice from specialists on legal, financial and regulatory aspects • Detailed weekly and monthly management information on operating performance • Careful monitoring of market dynamics, competitor behaviour and performance • Annual review of all aspects of the Group's strategy		Everyday Loans (including Trusttwo) was acquired on 13 April 2016 and represented 80% of the Group's total loan book in 2016 (before fair value adjustments). It has performed as expected since being acquired. We plan to open more branches in 2017 and have already secured a number of sites. No other acquisitions were made in 2016. Loans at Home represented 20% of the Group's total loan book in 2016 and while it delivered strong growth, it did so at higher than expected cost. The Group's 2017 plan for Loans at Home is focused on reducing volatility and increasing profit.
Operational			
Key areas of risk for the Group include: • IT failure • fraud • changes in the self-employed status of home credit agents • threats to agent safety • failure to recruit and retain key staff • underperformance by key staff	• IT policies are in place to mitigate risk including disaster recovery plans • Policies and procedures are in place to identify, investigate and report fraud • Careful monitoring with our advisers of the tax status of home credit agents • Agents receive regular training about personal safety and any incident is carefully monitored to inform policy and procedures • A series of recruitment, retention and incentive programmes are already in place • Members of the NSF Board sit on and attend all board meetings of the operating subsidiaries		Everyday Loans successfully migrated all of its technology onto a new platform during 2016, reducing substantially the risk of IT failure. The media has speculated that the employment status of self-employed workers for a number of UK business models may change. While agent-related incidents are rare, we are never complacent and continue to ensure that agents follow procedures to ensure they remain safe. The Group is recruiting the people that it needs to execute its plans and while there is a degree of turnover, it is within the expected levels of tolerance.
Liquidity			
The Group may not be able to meet its financial obligations because it: • is unable to borrow to fund lending by its operating businesses • has failed to renew / replace existing debt facilities as they become payable • cannot fund growth and further acquisitions	• The Group's short-term loans to customers provide a natural hedge against medium-term borrowings • The Group's debt facilities are sourced from a number of different providers • The facilities are at different maturities • Cash and covenant forecasting is conducted on a monthly basis as part of the regular management reporting exercise		The majority of the Group's bank facilities are in place until March 2020. With a loan book of c.£165m (before fair value adjustments), at 31 December 2016, the Group is exploring an array of other financing options.
Reputational			
Lending money at high rates of interest means that consumer finance can attract a higher level of media and political scrutiny than certain other business sectors. Whilst the Group is committed to meeting all of its regulatory obligations, including the delivery of positive customer outcomes, its reputation may become tarnished by the activities of other businesses or the practices of others. This in turn could have an impact on the Group's operational or financial performance.	• As a PLC listed on the main market of the London Stock Exchange, the Group is highly transparent with full disclosure regarding its business and financial performance • The Group conducts an active regulatory affairs programme to ensure that all stakeholders, not just the providers of capital, have an accurate picture of what the Group is trying to achieve, our ethos, culture and business strategy • Whilst a relatively new company we have embarked upon a Group-wide exercise to ensure that 'what we say is what we do' and that our processes and procedures are consistent with our desired culture, values and behaviours (see Culture and stakeholder management on pages 36 to 38)		As we have introduced more stakeholders to our business (Members of Parliament, debt-related charities, regulators, journalists, think-tanks, investors, debt-providers and others), we have made clear that not all consumer finance companies are the same – we explain why we are different and why we believe that makes us stand out from the crowd. However, we remain vigilant, always ensuring that our reputation is both nurtured and protected.

Decreased Increased Unchanged

Strategic report
2016 Financial review

Nick Teunon
Chief Financial Officer

Group reported results

The reported Group results for the year ended 31 December 2016 include a full period of Loans at Home which was acquired on 4 August 2015 and approximately eight months' performance from Everyday Loans (including Trusttwo) which was acquired on 13 April 2016. The prior year reported figure included approximately five months' performance from Loans at Home.

Year ended 31 December 2016 £'000	Normalised[1]	Fair value adjustments, amortisation of acquired intangibles	Reported
Revenue	**81,099**	**(8,342)**	**72,757**
Impairments	(23,201)	–	(23,201)
Admin expenses	(42,303)	(10,714)	(53,017)
Temporary additional commission[2]	(1,771)	–	(1,771)
Operating profit (loss)	**13,824**	**(19,056)**	**(5,232)**
Exceptional items	–	(626)	(626)
Profit (loss) before interest and tax	**13,824**	**(19,682)**	**(5,858)**
Finance cost	(3,484)	–	(3,484)
Profit (loss) before tax	**10,340**	**(19,682)**	**(9,342)**
Taxation	(2,278)	3,622	1,344
Profit (loss) after tax	**8,062**	**(16,060)**	**(7,998)**
Earnings (loss) per share[3]	**2.62p**		**(2.60)p**
Dividend per share	**1.20p**		**1.20p**

Period ended 31 December 2015 £'000	Normalised[1]	Fair value adjustments, amortisation of acquired intangibles and exceptional items	Reported
Revenue	14,657	(5,456)	9,201
Impairments	(3,858)	–	(3,858)
Admin expenses	(11,340)	(4,030)	(15,370)
Temporary additional commission[2]	–	–	–
Operating loss	(541)	(9,486)	(10,027)
Exceptional items	–	(6,135)	(6,135)
Loss before interest and tax	(541)	(15,621)	(16,162)
Finance income	70	–	70
Loss before tax	(471)	(15,621)	(16,092)
Taxation	1,271	1,751	3,022
Profit (loss) after tax	800	(13,870)	(13,070)
Earnings (loss) per share[3]	1.30p		(21.25)p
Dividend per share	nil		nil

1. Adjusted to exclude fair value adjustments, amortisation of acquired intangibles and exceptional items.
2. When a new home credit agent agrees to provide lending and collection services to the Group, we may decide to offer a limited period of additional commission whilst the agent builds up a critical mass of active loan customers.
3. Basic and diluted earnings (loss) per share based on the weighted average number of shares in issue of 307,315,588 (2015: 61,502,789).

Context for results
- The Group listed on 19 February 2015 and acquired Loans at Home on 4 August 2015 and Everyday Loans, including Trusttwo, on 13 April 2016.
- The 2016 reported results include a full-year contribution from Loans at Home, a full year of central costs and just over eight months of trading from Everyday Loans, including Trusttwo.
- The 2015 reported results include the trading of Loans at Home for approximately five months and the central costs of the business since incorporation on 8 July 2014.
- Reported results include fair value adjustments, amortisation of acquired intangibles and exceptional items relating to the acquisitions. Normalised results are presented to demonstrate Group performance before these items.
- The Group also presents 2016 pro forma normalised results in order to show the results of the Group as if it had acquired Everyday Loans, including Trusttwo, on 1 January 2016.
- There are no comparative pro forma figures for 2015 as on completion of the acquisition of Loans at Home on 4 August 2015, the Group adopted a more timely approach to recognising impairment. The Group has concluded that any benefit derived from restating the results of Loans at Home from 1 January to 3 August 2015 to reflect this more prudent approach would be more than outweighed by the cost of producing such results.

Normalised revenue was £81.1m (2015: £14.7m) reflecting a full period of Loans at Home and approximately eight months' of Everyday Loans whilst the prior year included just five months' of Loans at Home. This fed through into a normalised operating profit of £13.8m (2015: loss of £0.5m), which has been reduced by temporary additional commission paid to newly signed-up agents of £1.8m (2015: £nil). Normalised operating profit is then adjusted by fair value adjustments and amortisation of acquired intangibles totalling £19.1m (2015: £9.5m). As a result, the reported operating loss was £5.2m (2015: loss of £10.0m). Exceptional costs of £0.6m (2015: £6.1m) and finance costs of £3.5m (2015: finance income of £0.1m) resulted in a reported loss before tax of £9.3m (2015: loss of £16.1m). A tax credit of £1.3m (2015: £3.0m) meant that the loss after tax was £8.0m (2015: £13.1m) equating to a reported loss per share of 2.60p (2015: loss per share of 21.25p).

In addition to reported figures, we have provided pro forma figures to illustrate what revenues, profits and other key performance metrics would have been had Everyday Loans, including Trusttwo, been acquired at the beginning of 2016. We have therefore analysed performance both before and after temporary additional commission paid to newly signed-up agents at Loans at Home, fair value adjustments, the amortisation of acquired intangibles and exceptional items. There are no directly comparable pro forma figures for 2015 as the Company listed in February 2015 as a cash shell and had no revenue in the first seven months of 2015.

Summary – Group pro forma results

Year ended 31 Dec 16 Pro forma normalised[4]	Everyday Loans £'000	Loans at Home £'000	Trusttwo £000	Central costs £000	NSF plc Pro forma normalised £000
Revenue	**50,088**	**42,170**	**2,416**	**–**	**94,674**
Impairments	(10,034)	(15,313)	(358)	–	(25,705)
Revenue less impairments	**40,054**	**26,857**	**2,058**	**–**	**68,969**
Admin expenses	(20,631)	(23,229)	(1,402)	(3,257)	(48,519)
Temporary additional commission	–	(1,771)	–	–	(1,771)
Operating profit	**19,423**	**1,857**	**656**	**(3,257)**	**18,679**
Finance cost	(4,720)	(323)	(316)	(264)	(5,623)
Profit before tax	**14,703**	**1,534**	**340**	**(3,521)**	**13,056**
Taxation	(2,941)	(54)	(68)	374	(2,688)
Profit after tax	**11,762**	**1,480**	**272**	**(3,147)**	**10,368**
Pro forma normalised earnings per share					**3.37p**
Dividend per share					**1.20p**

4. Assuming Everyday Loans (including Trusttwo) was acquired on 1 January 2016 and adjusted to exclude fair value adjustments, amortisation of acquired intangibles and exceptional items. Note there are no comparative figures for 2015 (see Context for Results above).

A more detailed review of each of the operating businesses is outlined below showing results on a pro forma as well as a reported basis.

Strategic report

2016 Financial review continued

Divisional overview

Branch-based lending

Size of loans

£1,000–£15,000

Duration

1-5 years

Range of APR

24.2%–299%

(representative APR – 79.4%)

Average gross annual income of customers

c.£30,000

Lending process

1. Customer applies online or via a broker
2. Initial credit score removes duplicate applications and applicants that fail to meet lending criteria
3. Customer then contacted by the branch to confirm details and if satisfactory is invited into the branch for an in-depth interview
4. Interview includes detailed income and expenditure assessment

Collections process

1. Customer pays electronically, preferably by direct debit
2. If payment missed then branch is responsible for follow-up
3. If customer circumstances change, central function can defer or reschedule payments
4. Once arrears reach 180 days, the debt is fully written-off

Everyday Loans

Everyday Loans remains the largest branch-based lender in the UK's non-standard finance sector with 41 branches. By tailoring customers' requirements through a broad range of loan products, Everyday Loans is able to meet the needs of a large number of customers.

Having announced the proposed acquisition of Everyday Loans on 4 December 2015, the transaction completed on 13 April 2016, following receipt of the requisite approval from the FCA.

At 31 December 2016, Everyday Loans had over 39,600 active customers across the UK and has delivered strong growth in all key financial metrics since acquisition in April 2016. With loans carrying APRs ranging from 24% to 299%, loan amounts ranging from £1,000 to £15,000 and length of loan ranging from one year to five years, we believe that Everyday Loans is able to serve an unrivalled breadth of UK customers. Another key differentiator from many competitors is that while the vast majority of customers make their initial contact remotely, either direct or through brokers, we always seek to meet the customer face-to-face in one of our branches so that we can complete our underwriting process. We believe that whilst expensive to deliver, our branch-based approach creates a more bespoke and thorough lending experience which benefits our customers as well as the business by enabling us to make better lending decisions.

Having received the full FCA permissions in June 2016, we embarked on a planned programme of investment across the business with a clear focus on:

- extending our customer reach;
- broadening our product range; and
- ensuring we remain fully compliant with our regulatory obligations.

Specific achievements included: expanding the branch network with five new openings during the year; extending the customer offering with the launch of a new self-employed product; we successfully migrated our back-office technology to a new platform without incident; we began working with a number of new brokers and lead generators that are already proving to be very successful and have continued to invest in staff training and compliance to ensure that we remain at the vanguard of our industry.

We continue to believe that the branch-based approach provides Everyday Loans with a significant advantage over other more remote lenders in being able to properly assess both affordability and propensity to pay and so whilst customers with lower credit scores do carry more risk, at higher APRs the risk-adjusted return remains commercially attractive.

Reported results

Normalised revenue was £37.1m (2015: n/a) and reflected the inclusion of Everyday Loans from 13 April 2016. Fair value adjustments of £7.9m (2015: n/a) were due to the fair value unwind of the acquired loan portfolio and resulted in reported revenue of £29.2m (2015: n/a). Impairments were £7.6m (2015: n/a) while administrative expenses were £14.7m (2015: n/a) resulting in total normalised operating profit of £14.8m (2015: n/a) and reported operating profit of £6.8m (2015: n/a).

Being close to our customers is one factor that influences our ability to convert leads into underwritten loans and since completing the acquisition in April 2016 we have continued to invest in expanding our branch network. Whilst many applications represent duplicates or are rejected because data has been entered incorrectly, from over 860,000 applications processed in 2016, we completed 26,535 loans with an average loan size of £3,842.

Year ended 31 December	2016 Normalised[5] £000	2016 Fair value adjustments £000	2016 Reported £000	2015 Reported £000
Revenue	**37,080**	**(7,916)**	**29,164**	–
Impairments	(7,645)	–	(7,645)	–
Revenue less impairments	**29,435**	**(7,916)**	**21,519**	
Admin expenses	(14,671)	–	(14,671)	–
Operating profit	**14,764**	**(7,916)**	**6,848**	–
Finance cost	(2,699)	–	(2,699)	–
Profit before tax	**12,065**	**(7,916)**	**4,149**	–
Taxation	(2,540)	1,504	(1,036)	–
Profit after tax	**9,525**	**(6,412)**	**3,113**	–

5. Reported figures, adjusted to exclude fair value adjustments.

Pro forma results

Pro forma normalised revenue (12 months of Everyday Loans) was £50.1m driven by further growth in the loan book that as at 31 December 2016 had reached £122.4m, thanks to continued strong demand for the Group's products as well as the benefit of an increase in yield from a combination of new pricing as well as a shift in the product mix. Impairments increased slightly from the half year to 20.0% of revenue reflecting the strong loan book growth and increased volumes from customers with lower credit scores (although this was more than offset by an increase in yield on new business volumes that increased from 51.9% in March 2016 to 56.9% in December 2016). Administrative expenses were £20.6m resulting in pro forma normalised operating profit of £19.4m.

Year ended 31 December	2016 Pro forma Normalised[6] £000
Revenue	**50,088**
Impairments	(10,034)
Revenue less impairments	**40,054**
Admin expenses	(20,631)
Operating profit	**19,423**
Finance cost	(4,720)
Profit before tax	**14,703**
Taxation	(2,941)
Profit after tax	**11,762**
Key Performance Indicators[7]	
Number of branches	41
Period end customer numbers (000)	39.6
Period end loan book (£m)[8]	122.4
Average loan book (£m)[9]	113.4
Revenue yield (%)[10]	44.2
Risk adjusted margin (%)[11]	35.3
Impairments/revenue (%)	20.0
Operating profit margin (%)	38.8
Return on asset (%)[12]	17.1

Plans for 2017

We remain focused on expanding our branch network and continuing to broaden our product range.

Having opened five new branches since April 2016, we are keeping up the momentum in 2017 with ten new branches already underway and plans for a further two new branches that are also expected to open by the year end. Whilst this increased investment is expected to reduce operating profit by approximately £1m in the current year, it will underpin strong earnings growth in future years as the new branches reach maturity in terms of customers and loan book.

In terms of product development, our new 'selfy' loan has been designed to reach the large and growing proportion of the workforce that are now self-employed and which, due to the variability of their income, are often excluded by other lenders. Whilst encouraged by some early success, we are continuing to test the appeal and viability of the product before deciding to commit further resources to it. Separately, we submitted an application to the FCA for a high-cost, short-term credit licence in December 2016 and if successful, plan to offer shorter-term loans to our customers through the branch network. Currently, our shortest term loan is for 24 months and we believe that a number of potential customers would prefer to borrow over a shorter period. This extension to our product range will complement our existing offering and improve our service to customers.

6. Assuming Everyday Loans was acquired on 1 January 2016 and adjusted to exclude fair value adjustments.
7. Key performance indicators have been provided using pro forma normalised data only as reported data only includes performance metrics from the date of acquisition.
8. Excluding fair value adjustments.
9. Excluding fair value adjustments based on a 12-month average.
10. Revenue as a percentage of average loan book excluding fair value adjustments (12-month average).
11. Revenue less impairments as a percentage of average loan book excluding fair value adjustments (12-month average).
12. Operating profit as a percentage of average loan book excluding fair value adjustments (12-month average).

Strategic report

2016 Financial review continued

Divisional overview

Home Credit

Size of loans

£100–£1,000

Duration

24–75 weeks

Range of APR

164%–733%

(representative APR – 433.4%)

Average gross annual income of customers

c.£14,500

Lending process

1. Customer submits initial details to allow initial credit scoring and decision in principle
2. Agent receives a 'request to call'
3. Agent visits the customer at home to conduct full income and expenditure
4. Agent returns at a later date to finalize and make the loan

Collections process

1. Agent calls each week or every two weeks to collect due payments
2. c.20% of payments are made on card (Continuous Payment Authority)
3. Loans start to be impaired if 2 out of 13 payments are missed
4. Once arrears reaches 180-days, the debt is fully written-off

Loans at Home

Loans at Home is the third largest home credit business in the UK with almost 94,000 customers and a net loan book (before fair value adjustments) at 31 December 2016 of £33.4m, an increase of 19% over the prior year (2015: £28.0m).

Strong growth in the number of self-employed agents drove faster than expected growth in customer numbers that in turn prompted a spike in impairments in the first half of 2016. Having tested a number of alternate growth strategies, we implemented the following measures to reduce impairments and improve operating performance: we simplified the management structure; increased our focus on the performance of recently joined agents; deployed a more sophisticated scorecard; and consolidated a number of sub-scale agencies. These measures improved the quality of the loan book and the rate of impairment began to decline. Total customer numbers consequently came down in the second half and new loans written improved in terms of quality, albeit on lower volumes.

Having assembled the new management team and instituted the transformation of Loans at Home, Mark Bardsley stepped down as CEO of Loans at Home in January 2017 and David Thompson, a seasoned home credit executive who had already been running the Loans at Home network, has stepped into the role.

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Reported results

Normalised revenue was £42.2m (2015: £14.7m), reflecting the inclusion of Loans at Home for a full period. Reported revenue was £0.4m lower due to the unwinding of the fair value adjustment made to the loan book at completion in 2015 (2015: a charge of £5.5m).

Normalised operating profit of £1.8m (for the period 4 August 2015 to 31 December 2015: £2.1m) was after deducting administration costs of £23.2m which included £7.9m of agent collection commissions and temporary additional agent commission of £1.8m (2015: £nil). Temporary additional agent commission was higher than expected following our decision to focus on adding higher quality customers that meant it took longer for a number of newly appointed agents to reach critical mass with their rounds and so temporary commissions were extended for a further period. Reported operating profit was £1.4m (2015: operating loss of £3.9m) reflecting the cost of temporary additional commission paid to agents and the fair value adjustment to revenue outlined above.

The first part of our technology investment is now complete: our new handheld collections application (app) has been rolled-out across the entire network and has been warmly welcomed by all agents. This automation has significantly reduced the complexity of administering the collections process and is also providing accurate management information in a fraction of the time and at lower cost.

Year ended 31 December	2016 Normalised[13] £000	2016 Fair value adjustments £000	2016 Reported £000	2015 Normalised £000	2015 Fair value adjustments £000	2015 Reported £000
Revenue	**42,170**	**(426)**	**41,744**	14,657	(5,456)	9,201
Impairments	(15,313)	–	(15,313)	(3,858)	–	(3,858)
Revenue less impairments	**26,857**	**(426)**	**26,431**	10,799	(5,456)	5,343
Admin expenses	(23,229)	–	(23,229)	(8,656)	–	(8,656)
Temporary additional commission	(1,771)	–	(1,771)	–	–	–
Exceptional items	–	–	–	–	(593)	(593)
Operating profit/(loss)	**1,857**	**(426)**	**1,431**	2,143	(6,049)	(3,906)
Finance cost	(323)	–	(323)	–	–	–
Profit/(loss) before tax	**1,534**	**(426)**	**1,108**	2,143	(6,049)	(3,906)
Taxation	(54)	81	27	1,271	–	1,271
Profit/(loss) after tax	**1,480**	**(345)**	**1,135**	3,414	(6,049)	(2,635)
Key Performance Indicators[14]						
Period end agent numbers	785			630		
Period end number of offices	47			41		
Period end customer numbers (000)	93.6			92.0		
Period end loan book (£m)	33.4			28.0		
Average loan book (£m)	27.6			n/a		
Revenue yield (%)	152.8			n/a		
Risk-adjusted margin (%)	97.3			n/a		
Impairments/revenue (%)	36.3			26.3		
Operating profit margin (%)	4.4			14.6		
Return on asset[13]	6.7			n/a		

13. Normalised to exclude fair value adjustments and exceptional items.
14. All definitions are as per above. Certain Key Performance Indicators for 2015 are shown as not applicable as Loans at Home was acquired on 4 August 2015 and reported data therefore includes less than a full year's performance. Note there are no comparative figures for 2015 (see 'Context for Results' on page 27)

Plans for 2017

Our focus for 2017 is to consolidate the changes already made, complete the roll-out and then embed our new technology as planned so that we can focus the business on what it does best: lending and collecting responsibly to deliver excellent customer outcomes. We are continuing to invest in our people with improved training programmes for both staff and self-employed agents and we hope to become the home credit firm that is recognised as being the preferred place to work. Whilst we continue to be opportunistic and selective regarding the hiring of experienced agents, particularly now that our largest competitor is substantially reducing the scale of its agent network, we expect temporary agent commission costs to fall in the current year.

We will continue to improve the quality of our customer base and aim to reduce further the level of impairments as a percentage of revenue and whilst this may result in more moderate loan book growth in the current year versus 2016, our objective will be to deliver healthy revenue and profit growth.

Strategic report

2016 Financial review continued

Divisional overview

TRUSTTWO
JOINED UP BORROWING

Guaranteed Loans

Size of loans

£1,000–£7,500

Duration

12–60 months

Range of APR

43.8%–48.9%
(representative APR – 43.8%)

Average annual income of customers

c.£24,800

Lending process

1. Customer submits application online
2. Customer sends link to preferred guarantor
3. Guarantor completes their details online
4. Credit check on applicant and guarantor
5. If successful, both guarantor and applicant are contacted to undertake affordability and ID review
6. If successful, guarantor asked to sign agreement electronically
7. Applicant signs their agreement electronically
8. Funds transferred to guarantor

Trusttwo

Whilst a relatively new segment of the unsecured credit market, the value of outstanding unsecured guaranteed loans in the UK has grown rapidly and is estimated to have reached approximately £350m in 2015. We believe that there is a significant opportunity for Trusttwo to become the clear number two player behind the market leader and during 2016 we laid the foundations to realise the full potential of this exciting business model.

Following its acquisition in April 2016, we established Trusttwo as a stand-alone business and hired a Managing Director who has full profit and loss responsibility. Having obtained its full FCA permissions in June 2016, we established a robust infrastructure through the recruitment of more staff and the redesign of a number of core processes. This doubled conversion rates so that the business now represents a viable and attractive alternative for financial brokers that are keen to offer customers an alternative solution to the market leader. Whilst this required meaningful investment, we began to see solid month-on-month revenue and expect this to increase further once our infrastructure is fully in place.

Reported results

As at 31 December 2016 the business had a net loan book of £8.8m delivering reported revenue of £1.8m (2015: n/a) and operating profit of £0.5m (2015: n/a) reflecting the performance in the eight-month period since acquisition.

Year ended 31 December	2016 Reported £000	2015 Reported £000
Revenue	**1,849**	–
Impairments	(243)	
Revenue less impairments	**1,606**	
Admin expenses	(1,146)	–
Operating profit	**460**	–
Finance cost	(198)	–
Profit before tax	**262**	–
Taxation	(58)	–
Profit after tax	**204**	–

Pro forma results

On a pro forma basis, Trusttwo generated pro forma revenue of £2.4m (2015: n/a) and pro forma operating profit of £0.7m (2015: n/a). Administration costs almost doubled in the second half versus the first half as we invested in building the infrastructure (people, systems and processes) to be able to grow revenues substantially in 2017 once all elements of our customer experience are working as planned.

Year ended 31 December	2016 Pro forma[15] £000
Revenue	**2,416**
Impairments	(358)
Revenue less impairments	**2,058**
Admin expenses	(1,402)
Operating profit	**656**
Finance cost	(316)
Profit before tax	**340**
Taxation	(68)
Profit after tax	**272**
Key Performance Indicators[16]	
Period end customer numbers (000)	3.3
Period end loan book (£m)	8.8
Average loan book (£m)	7.7
Revenue yield (%)	31.9
Risk adjusted margin (%)	26.7
Impairments/revenue (%)	14.8
Adjusted operating profit margin (%)	27.2
Return on asset (%)	8.5

15. Assuming Trusttwo was acquired on 1 January 2016.
16. Key performance indicators have been provided using pro forma normalised data only as reported data only includes performance metrics from the date of acquisition. All definitions are as per above.

Plans for 2017

Trusttwo will soon be launching a much improved website that we expect will attract more customers as well as improve conversion rates further. The new site will also expand our existing product parameters thereby increasing our appeal to potential customers that are looking to tailor any offer to best suit their needs. The launch will be accompanied by a fully-integrated marketing campaign across all key channels including online, social as well as through referrals from the Everyday Loans branch network. So far we have been pleased with the positive response from staff in the branches and hope to make further progress on increasing the number of referrals and conversion rates during 2017. Financial brokers represent a significant opportunity for Trusttwo and we have been leveraging Everyday Loans' excellent relationships as well as building new ones with additional brokers and lead generators for whom the Trusttwo proposition is more attractive.

With our infrastructure and funding in place, we believe that there is a substantial opportunity for Trusttwo to become the clear number two in the UK's guaranteed loans market.

Central costs

Year ended 31 December	2016 Normalised[17] £000	2016 Amortisation of acquired intangibles £000	2016 Reported £000
Revenue	**–**	**–**	**–**
Admin expenses	(3,257)	(10,714)	(13,971)
Exceptional items	–	(626)	(626)
Operating loss	**(3,257)**	**(11,340)**	**(14,597)**
Finance cost	(264)	–	(264)
Loss before tax	**(3,521)**	**(11,340)**	**(14,861)**
Taxation	374	2,037	2,411
Loss after tax	**(3,147)**	**(9,303)**	**(12,450)**

17. Adjusted to exclude the amortisation of acquired intangibles related to the acquisition of Loans at Home and Everyday Loans and exceptional items.

Year ended 31 December	2015 Normalised[19] £000	2015 Amortisation of acquired intangibles £000	2015 Reported £000
Revenue	–	–	–
Admin expenses	(2,684)	(4,030)	(6,714)
Exceptional items	-	(5,542)	(5,542)
Operating loss	(2,684)	(9,572)	(12,256)
Net finance income	70	–	70
Loss before tax	(2,614)	(9,572)	(12,186)
Taxation	-	1,751	1,751
Loss after tax	(2,614)	(7,821)	(10,435)

19. Adjusted to exclude the amortisation of acquired intangibles related to the acquisition of Loans at Home and Everyday Loans and exceptional items.

Normalised administrative expenses, including head office costs and other expenses associated with the running of the plc (before the amortisation of acquired intangibles and exceptional items) were £3.3m (2015: £2.7m). The amortisation of intangible assets acquired as part of the acquisition of Loans at Home and Everyday Loans was £10.7m (2015: £4.0m) reflecting a full period of amortisation for Loans at Home and eight months for Everyday Loans. An exceptional item charge of £0.6m was incurred in the year and related to stamp duty paid at completion on the acquisition of Everyday Loans (2015: £5.5m). The charge in the prior year related to acquisition-related expenses. Finance costs of £0.3m (2015: finance income of £0.1m) were also incurred in the first half and related to the non-utilisation fee on the Everyday Loans bank facility prior to the drawdown at completion.

Approved by and signed on behalf of the Board of Directors

Nick Teunon
Chief Financial Officer
31 March 2017

Strategic report

Business model in action

Customer touchpoint: by phone

A non-standard day for Tom

"Love the job, great job satisfaction when I'm able to help a customer in need."

Tom
Trusttwo, Bourne End, Buckinghamshire

Trusttwo
JOINED UP BORROWING

Friendly, open and transparent culture

I joined Trusttwo in 2015 as a customer service agent, after working in a high street bank. I've found the environment and team culture to be very supportive, and I'm confident that I'll develop my career here. I love the Trusttwo brand. It feels good to provide a service to young people trying to build a robust credit record.

Bourne End, Buckinghamshire

Strategic report
Culture and stakeholder management

NSF is a relatively young company but has chosen to adopt a business approach that is more akin to that of a much larger, long-established business.

Our approach
Our approach to culture and stakeholder management has been forged by the considerable experience of the Group's founders and senior management team. Together, they view such an approach as being a prerequisite for long-term success and one that is consistent with our strategy to be a leader in each of our chosen markets (see Strategy on page 16).

It is clear from our business model (see page 3) that the interface with our customers is a key part of our overall process. As a result, "providing a helping, but firm hand" is an ethos that we hold dear. We believe that by sustaining the values and behaviours that support it, we will remain on-track to deliver our medium-term goal for the Group of 20% annual loan book growth and a return of 20% on assets in each of our operating businesses.

The acquisitions of both Everyday Loans (including Trusttwo) and Loans at Home were made after extensive legal, financial and operational due diligence, a process that also provided valuable guidance on the cultural values and behaviours that were embedded within each organisation. As a result, the Board was comfortable that each of the acquired businesses was guided by similar principles of business ethics.

Rather than seek to impose a 'target culture' or set of values, the Group has first sought to confirm the existing culture within each of its operating subsidiaries before then assessing where, if at all, there are any inconsistencies or gaps with its overall objectives and business approach.

For regulated financial services firms, the FCA has provided some broad guidance on the cultural approach that it expects licenced firms to adopt.

FCA guidance on cultural approach:

- develop strong, clear leadership and controls;
- identify key risks in their strategies, business models and cultures that may prevent the delivery of positive market and consumer outcomes;
- identify appropriate steps to mitigate such risks through appropriate systems and controls, including appropriate ways of using whistleblowing intelligence;
- align strategies, business models, systems and controls with core values that ensure positive outcomes (market and customer);
- ensure employee behaviours fall within a prescribed risk appetite using appropriate incentives;
- develop a culture that supports the long-term interests of the firm, its customers and the long-term integrity of the markets in which the firm operates; and
- demonstrate that the principles of good conduct towards customers and markets are embedded throughout their business and that these are working to deliver such outcomes and market behaviour.

As a result, FCA-regulated firms have to be focused not just on the delivery of attractive risk-adjusted returns, but they also need to be mindful of the way in which they do so. However, such an approach is not limited to FCA-regulated firms. The media is littered with corporate scandals that only serve to highlight how, in the digital age, the speed with which malpractice and/or 'poor' corporate behaviour is broadcast around the world, with a significant impact upon customers, staff, shareholders and a broad range of other stakeholders. All business leaders are being forced to recognise that it is not good enough just to be seen as a 'good corporate actor'. Executives are required to ensure that principles of corporate responsibility and business ethics are ingrained within their firm's DNA – from the most junior representative to senior executives in the Boardroom.

As well as the FCA, the issue of culture has also been championed by the Financial Reporting Council ('FRC') that during 2016 published a 62-page report on its findings entitled "Corporate Culture and the Role of Boards".

Against this background, the Board was clear that it needed clarity on what our culture is, what it should be and has developed the means to influence it in each of our business areas, not just because the FCA or the FRC says we should, but because it makes good business sense.

We define culture as the "way we do things around here" and are determined that the actions of our leaders, staff, self-employed agents or anyone authorised to represent one or more of our businesses, reflect our desired values and behaviours.

Progress so far
In December 2016 we launched a process to verify the cultural practices in each area of our business, ensuring that how we behave is consistent with our strategy and business model but also to confirm that such behaviour is in-line with our appetite for risk. This process was also tasked with identifying ways in which we can both foster and measure desired

values and behaviours, accepting that these measures may differ slightly depending upon which part of the business you are looking at.

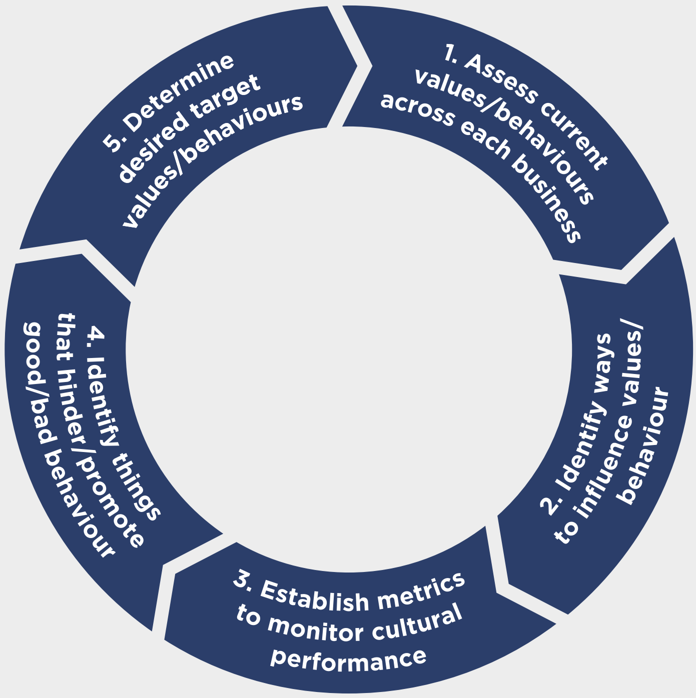
Whilst not yet complete, we have conducted a series of workshops across each of our operating businesses involving staff and contractors with different levels of experience, tenure and in different locations so as to ensure we capture as representative a sample as possible.

Each workshop was tasked with identifying the values and behaviours that would be required for a regulated firm to succeed as well as assessing where each business was relative to that target and, if gaps exist, determining how best we could move towards the desired target. They were also asked to identify any aspect of our business operations that was particularly helpful in promoting such desired values and behaviours, as well as any that acted as a barrier or might encourage bad behaviour. The final leg of the process is to identify means by which we can then influence values and behaviour in each part of our business.

Culture – preliminary findings
Whilst this exercise is not yet complete, based upon the early results received to-date, we are starting to identify the following key values and behaviours that are common across all three businesses:

- **Doing the right thing:** we recognise our collective responsibility for delivering great outcomes for our customers. We don't cut corners and always seek the path that is right before the path that is easy.
- **Shared purpose:** we have clear strategic and operational goals and expect all of our representatives to understand and share in that vision.
- **Integrity:** we expect our people to respect colleagues and other key stakeholders and to do what we say we will do.
- **Teamwork:** our businesses are complex and involve many different elements that each represent an important part of our overall business process. By working together we are likely to solve problems more effectively than trying to do things on our own.
- **Communication:** we listen, are well-informed and believe it's our duty to speak up when we disagree, or believe something is not right; we celebrate success and don't blame others when something goes wrong, always learning from our mistakes.
- **Entrepreneurial:** we use our initiative and are prepared to try new things so we can perform better and be the best we can be.

Our cultural approach



Strategic report

Culture and stakeholder management continued

"We define culture as 'the way we do things around here' and are determined that our actions reflect our desired behaviours and values."

Charles Gregson
Non-Executive Chairman

Certain areas of our business represent potential 'hot spots' through the existence of possible conflicts such as incentives, that may encourage poor behaviour in order to meet certain performance targets. Managing such conflicts are part of the day-to-day management of each of our businesses. Whilst we don't profess to get everything right all of the time, the systems and controls we have in place and our determination to promote a culture that supports each of our desired behaviours helps to ensure that we meet all of our regulatory obligations and minimise the risk of any material impact on our overall operating and financial performance.

This approach also helps us to address the needs of our key stakeholders including customers, employees and contractors, regulators, the communities where we work and the providers of capital.

Customers
As well as adhering to the extensive requirements of the FCA, putting our customers at the centre of everything we do lies within all of our policies and procedures, our training programmes, our incentive arrangements and the way we run our business. However, we recognise that it is 'deeds not words' that count and so we regularly survey our customers to tell us how we are performing. We also monitor and take very seriously all complaints we receive in order that we can improve our service.

Employees and self-employed agents
Investing in our people lies at the heart of our business strategy. As a relatively new Group we have sought to ensure that there is a proper induction process as well as the required level of training for all new joiners so that they can begin to make a contribution as soon as possible. We have also invested in training for existing staff and self-employed agents. Online training programmes such as our remote Learning Management System ('LMS') at Loans at Home provide us with a perfect audit trail for each participant of which modules have been completed and the achievement level attained.

As well as providing competitive compensation arrangements for both staff and self-employed agents, we have also announced our intention to put in place a save-as-you-earn scheme for all Group employees during 2017. This scheme will enable staff to buy shares in Non-Standard Finance plc in a tax-efficient way.

The following table sets out the breakdown by gender of the Directors and senior managers of the Company as well as the total number of employees:

	Male	Female	Total
Number of Company Directors	4	1	5
Number of senior managers (excluding Executive Directors), Directors of subsidiary businesses and heads of function	14	3	11
Total number of employees	267	270	537

Regulators
Whilst relatively small when compared with many other regulated firms, each of our regulated businesses maintains a regular dialogue with the FCA as part of both its licensing and also its on-going supervision processes. In addition, Non-Standard Finance plc has kept the FCA fully-informed regarding the Group's broader strategic plans and has also submitted its views when invited to do so as part of the FCA's ongoing series of Thematic Reviews.

Communities and charity
As the vast majority of our business is conducted face-to-face, we recognise the importance of becoming a valued member of the towns and cities where we have a presence. With over 500 staff, 785 self-employed agents and 137,000 customers that we serve through a network of almost 90 offices across the UK, we are deeply ingrained within the fabric of a number of local communities. One initiative that we hope to launch during 2017 is a pro bono scheme to enable our staff to give up to eight hours of their time during office hours for good causes, in and around the towns where they live and work. Whilst a relatively small gesture, we hope that our staff will embrace the chance to provide a helping hand if and when they can.

The Group also plans to implement a charity policy in 2017 so that in addition to the pro bono initiative above, we can also provide financial support not just in local communities but also nationwide. Whilst this is likely to be a modest sum in 2017, we hope to be able to increase this in future years.

Providers of capital
The Company keeps shareholders and lending banks informed of business developments via its annual report, full-year and half-year results as well as periodic trading update announcements. All other price sensitive information is publicly disclosed via a regulatory news service. All these items of information are also available on the Company's corporate website, www.nonstandardfinance.com. The website also contains other information about the Group and its business.

Throughout the year the Group Chief Executive, Chief Financial Officer, and Director of IR and Communications meet with shareholders on request or via organised investor roadshows supported by the Company's brokers as well as by attending and presenting at industry and investor conferences. The Chairman and other Non-Executive Directors may also meet with investors, as required.

Governance

Governance
Board of Directors

John van Kuffeler 68
Group Chief Executive

Appointed
8 July 2014

Committees
None

Profile
John was Chief Executive and then Chairman of Provident Financial plc for a combined total of 22 years until December 2013. He was Chairman of Marlin Financial Group Limited, the consumer debt purchasing company, for four years until its sale in February 2014 and was also Chairman of Hyperion Insurance Group Limited for five years until December 2013. John was previously Chief Executive of Brown Shipley Holdings PLC which included Medens Trust Limited, a consumer car finance company, and was Chairman of the credit committee of Brown Shipley Holdings PLC's main banking subsidiary, Brown, Shipley & Co. Limited.

External appointments
Non-Executive Chairman of Paratus AMC Limited

Nick Teunon 51
Chief Financial Officer

Appointed
8 August 2014

Committees
None

Profile
Nick was Chief Financial Officer of Marlin Financial Group Limited, the consumer debt purchasing company, from August 2013 until June 2014. Prior to that, Nick spent five years as Chief Financial Officer of FTSE International, joining from the Press Association, where he was Group Finance & Strategy Director for seven years. At both FTSE International and the Press Association, Nick was responsible for all mergers and acquisitions activity and related debt funding, in addition to leading the finance function.

External appointments
None

Miles Cresswell-Turner 54
Executive Director

Appointed
10 December 2014

Committees
None

Profile
Prior to becoming Executive Director, full-time, at NSF on 1 January 2016, Miles was a partner in Duke Street LLP who specialised in the finance sector and who led on the acquisitions by Duke Street LLP of Marlin Financial Group Limited and UKWM Limited. Before becoming a partner at Duke Street LLP, Miles was a partner at Palamon Capital Partners LLP from 1998 to 2008, where he led the investment in Towry Law plc. Prior to Palamon Capital Partners LLP, Miles spent seven years as a director in the Leveraged Finance Department of HSBC Investment Bank.

External appointments
None

Charles Gregson 69
Non-Executive Chairman

Appointed
10 December 2014

Committees
Audit Committee
(Chair from 31 October 2016)
Nomination Committee (Chair)
Remuneration Committee (Chair)
Risk Committee

Profile
Charles is a highly experienced executive having previously held a number of senior positions in finance: previously he was Non-Executive Chairman of ICAP plc from 1988 to 2016, when it became Nex Group plc and he became Chairman; Non-Executive Chairman of Wagon Finance Group Limited, from 1996 to 2006; Non-Executive Director and Deputy Chairman of Provident Financial plc from 1998 to 2007; and Non-Executive Director of International Personal Finance Plc from 2007 to 2010. Charles is a former Chairman of CPP Group Plc and of St James's Place Plc. Charles was Executive Director of United Business Media Plc (formerly MAI Plc) from 1985 to 2003 and Global CEO and Chairman of PR Newswire from 2003 to 2009. As part of his responsibilities at United Business Media Plc, Charles built Harlow Meyer Savage from a small money broking business into the international business of Garban PLC, a listed company with offices in 25 countries, which later merged with ICAP plc.

External appointments
Non-Executive Chairman of Nex Group plc
Non-Executive Director, Senior Independent Director and Chair of the Remuneration Committee of Caledonia Investments Plc

Heather McGregor 55
Independent Non-Executive Director

Appointed
10 December 2014

Committees
Audit Committee
Nomination Committee
Remuneration Committee
Risk Committee (Chair)

Profile
Professor Heather McGregor CBE began her early career in financial communications and investor relations before joining ABN Amro as a sell-side analyst. She then spent eight years with the bank, working in London, Hong Kong, Singapore and Tokyo, before joining Taylor Bennett in 2000. She has an MBA from the London Business School and a PhD from the University of Hong Kong. Heather was the founder of the Taylor Bennett Foundation, which works to promote diversity in the communications industry, and is a founding member of the steering committee of the 30% Club, which is working to raise the representation of women at senior levels within the UK's publicly quoted companies. She is also an experienced writer and broadcaster in the national media. In 2017 she was appointed to the Honours Committee for the Economy.

External appointments
Executive Dean of Edinburgh Business School, the graduate school of business of Heriot-Watt University
Chairwoman of the executive search firm Taylor Bennett
Non-Executive Director of International Game Technology PLC

Governance

Governance report
for the year ended 31 December 2016

Dear Shareholder,

Introduction
I am pleased to present our 2016 Corporate Governance report for the Company which incorporates reports from the Audit, Nominations, Remuneration and Risk Committees on pages 47 to 65. The Board is committed to applying the highest standards of corporate governance and although the Company does not have a premium listing on the Main Market of the London Stock Exchange, the Board has chosen to seek to comply with the UK Corporate Governance Code ('the Code') where practically possible throughout the year to 31 December 2016. A copy of the Code is available from the Financial Reporting Council's website: www.frc.org.uk. As the Company has not admitted any shares to the premium listing on the London Stock Exchange it is not required to comply with the Code and/or any other legislation that applies to premium-listed, quoted companies. Where there is non-compliance it is included in the Audit Committee report on page 47, the Nominations Committee report on page 49, the Risk Committee report on page 50, and the Directors' remuneration report on page 51. For the Company's shareholders, our main aim is to deliver significant growth and the development of a strong governance framework is key to that achievement.

The Board is responsible for and committed to maintaining and developing such procedures as are required to ensure that good standards of corporate governance operate across all levels of the Group, including each of its operating subsidiaries.

2016 saw the completion of the Group's second major acquisition, one that involved a substantial financing exercise including both debt and equity. Having broadened the operational base substantially, the Board has extended its governance framework so as to ensure that the Group's values and behaviours are reflected in each of its businesses and that these tie back to the Group's business strategy.

Highlights of the financial year
During 2016, we successfully completed the acquisition of Everyday Loans (including Trust two) and continued to actively engage with our investors by holding a well-attended investor day in November 2016. The investor day received positive and encouraging feedback and we intend to conduct more investor days in the future.

There were some changes to the composition of the Board during 2016. Robin Ashton stepped down from the Board in October 2016 and to ensure that our Board operates in-line with the Code the Board agreed that the roles of Chairman and Chief Executive should be separated. In December 2016 I was appointed as Chairman and John van Kuffeler was appointed to the role of Group Chief Executive.

Since the Company was listed in February 2015, there has been a strong commitment from the Board to develop the corporate governance within the Company despite there being no requirement to ultimately comply with the Code. Towards the end of 2016, a first Board evaluation was undertaken focusing on a self-evaluation of the Board performance and objectives. The results were reviewed and interpreted by an independent party to draw out themes and recommendations for the Board to consider. As a result a roadmap of actions has been developed to assist the Board in its journey towards a mature governance structure.

The Remuneration Committee recognises that the Company's acquisitive nature means that it must ensure it retains existing management and be able to attract key future hires that are capable of managing a business of the scale that we believe the Group is capable of reaching within the next few years. It is therefore important to be able to attract and retain the right talent whilst recognising that our existing incentive arrangements are limited. Having undertaken a review of our remuneration policy with our advisers, we are preparing to adopt a new policy, details of which are set out in the Directors' remuneration report on pages 51 to 65.

The future
We aim to embed the corporate governance principles within our corporate policies, which in turn will strengthen the corporate governance framework and ensure consistency throughout the Group. The Board will continue to ensure that governance processes are documented and implemented and, where appropriate, continually improved.

In line with the Corporate Governance Code, one of the aims for the Board is to finalise the appointment of an additional independent Non-Executive Director to the Board. We anticipate that this will be achieved during the first half of 2017.

Charles Gregson
Non-Executive Chairman
31 March 2017

The Board

Statement of compliance with the Code

During the financial year ended 31 December 2016, the Company has not complied with all of the provisions of the Code.

Given that only one Director is considered to be independent, the Company did not meet requirements B.1.2, B.2.1, C.3.1 and D.2.1 of the Code. The Board considered these provisions to not be appropriate due to the size and nature of the Company and the fact that the Board is actively engaged to appoint a second Independent Director.

The Board has not appointed a Senior Independent Director, and therefore does not comply with provision A.4.1 of the Code. This provision is not considered to be appropriate due to the relatively small size of the Board and the fact that currently the Board only includes one independent Non-Executive Director.

Contrary to provision B.6.1, A.4.2 and B.6.3 of the Code, although a performance evaluation of the Board and its Committees was undertaken, an appraisal of the Chairman's performance was not undertaken as there is only one other Non-Executive Director. In addition, during 2016 the Chairman and Non-Executive Directors did not meet without the Executive Directors present.

Board operation

The Chairman and the Chief Executive roles are fulfilled by separate individuals and their roles are set out in writing and agreed by the Board. The Chairman, Charles Gregson, is responsible for the leadership of the Board and the day-to-day executive responsibility is undertaken by John van Kuffeler, assisted by the Group's Board of Directors.

The Board is responsible for the long-term success of the Company in relation to its strategy, operations and values and for establishing financial soundness for the Group alongside a strong corporate governance structure and practices that support an effective decision-making process.

The Board sets annual objectives as well as the overall strategic direction of the Company. These objectives are reviewed regularly at Board meetings and are implemented through approval and regular assessment of the Company's strategy and business plan. At each Board meeting the Board discusses the financial, operational, strategic and governance issues that affect the Group.

Board composition and structure

The Board comprised six Directors through the year until 31 October 2016 when Robin Ashton stepped-down as a Director. For the rest of the financial year, the Board comprised five Directors, all of whom have served throughout the financial year, including:

- Non-Executive Chairman
- Group Chief Executive
- 2 Executive Directors
- 1 Independent Non-Executive Director

Independence

In accordance with section B.1.1 of the Code the Board determines Heather McGregor to be an Independent Non-Executive Director. The Board's assessment is based on the fact that Heather McGregor receives no additional benefits from the Group, has not previously held an executive role within the Group and has served less than nine years on the Board. The Board believes that there are no current or past matters which are likely to affect Heather McGregor's independent judgement and character.

The Board does not consider Charles Gregson to be independent as he is a holder of Founder Shares. More details on the Founder Shares are set out in the Directors' remuneration report on pages 51 to 65. The Board determines that Charles Gregson would be an Independent Director in the event that he did not hold Founder Shares.

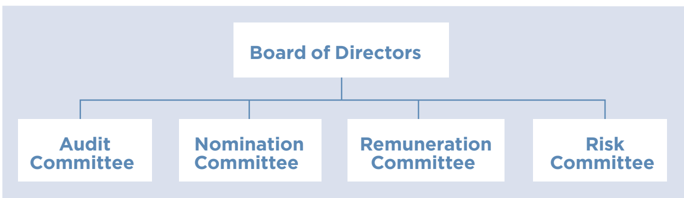
Following the resignation of Robin Ashton, the Board has considered the balance between the Independent and Non-Independent Directors. As the Company is currently non-compliant with section B.1.2 of the Code, the Nomination Committee continues to consider the composition of the Board on an ongoing basis and is actively engaged in seeking the appointment of an additional Non-Executive Director and the Board continues to consider appointments to this position. The Board anticipates an appointment of an additional Non-Executive Director to be made during 2017.

The Board and its Committees are considered to have an appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The Directors have a wide range of backgrounds and extensive knowledge of a variety of sectors:

Accountancy
Banking/lending
Home credit
Insurance
Law
Media
Private equity
Equity research
Executive search
Education

Specific key decisions have been reserved for the Board which are outlined in its terms of reference. However, to assist the Board in carrying out its function, the Board delegates certain functions to the four committees on its behalf, so it can operate efficiently and give the right level of attention and consideration to relevant matters.

The Company has four different committees as outlined below:



Governance

Governance report continued

The composition and role of each committee is detailed in their respective reports that follow. The Audit Committee report is on page 47, Nomination Committee report on page 49, the Risk Committee report on page 50, and the Directors' remuneration report on page 51. The terms of reference for each committee can be observed at the Company's registered office address and also on the Company's website: www.nonstandardfinance.com.

The Company does not comply with provisions of the Code in relation to the composition of the Audit, Remuneration or Nomination Committee. The Board considered these provisions to not be appropriate due to the size and nature of the Company.

Internal control and risk management systems

The Board is responsible for the overall system of internal controls and risk management for the Group and for reviewing their effectiveness on an annual basis. The Company's internal controls are designed to manage rather than eliminate the risk of failure in pursuit of the Group's overall business objectives. The risk management framework is embedded within our management and governance processes and can be adjusted, if and when required, in response to a material change in circumstances.

The Board discharges or intends to discharge its duties in this area through:

- the review of financial performance including budgets, KPIs, forecasts and covenants on a monthly basis;
- the receipt of regular reports which provide an assessment of key risks and controls and how effectively they are working;
- scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- the receipt of reports from senior management on the risk and control culture within the Group;
- the presence of a clear organisational structure with defined hierarchy and clear delegation of authority; and
- ensuring there are documented policies and procedures in place.

Through the Risk Committee, the Board reviews the risk management framework, the key risks facing the business and how they have changed since the previous review (see pages 24 to 25). The Finance Department is responsible for preparing the Group financial statements and ensuring that accounting policies are in accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee

The Board, with advice from the Risk and Audit Committees, is satisfied that a system of internal controls and risk management is in place which enables the Company to identify, evaluate and manage key risks.

Directors

Each of the Directors is committed to their respective roles and has sufficient time to fulfil their duties and obligations to the Company. The Non-Executive Directors' other significant commitments were disclosed to the Board before their appointment.

Chairman

The Chairman is responsible for the proper function of the Company's Board of Directors who oversee the strategic direction of the Group. He sets the Board meeting agendas with the Company Secretary, to ensure that the Board devotes its attention to the right matters, and facilitates and encourages active engagement and appropriate challenge by all Directors.

Role of Executive Directors

The Executive Directors are responsible for all matters affecting the performance of the Group and for the implementation of strategy, policies, budgets and the financial performance of the Group. The Executive Directors provide specialist knowledge and experience to the Board and successfully lead and manage the risk and finance functions across the Group.

Role of Non-Executive Directors

The Non-Executive Directors are responsible for providing constructive challenge and help develop proposals put forward by the Executive Directors on strategy and other matters affecting the Group's operational and financial performance. They provide an external focus to the Board's discussions and continually review the performance of the Executive Directors and the wider senior management team.

The Board has adopted a procedure for the appointment of new Directors by appointing a Nomination Committee to lead the process of appointment and to make recommendations to the Board. Non-Executive Directors have been appointed for fixed periods of three years, subject to confirmation by shareholders. Their letters of appointment may be inspected at the Company's registered office or can be obtained on request from the Company Secretary.

The Board has not appointed a Senior Independent Director, as this provision is not considered to be appropriate due to the relatively small size of the Board and the fact that the Board only includes one independent Non-Executive Director. The Non-Executive Directors are available to shareholders if they have any concerns, which contact through the normal channels of Chairman or other Executive Directors has failed to resolve or for which such contact is inappropriate. The appointment of a Senior Independent Director will be reviewed annually and should the Board find it necessary an appointment will be made.

Company Secretary

The role of Company Secretary is fulfilled by the Chief Financial Officer who acts as secretary to the Board and to its Committees. The Company Secretary is supported by the Assistant Company Secretary. The Board is aware that if a conflict were to arise, the Assistant Company Secretary is available to the Board and its Committees for advice on matters relating to corporate governance. The Company Secretary ensures that all Directors have full and timely access to all relevant information to ensure that the Board is able to make informed decisions. He is responsible for ensuring that correct Board procedures are followed and for advising on governance matters and ensuring that there is a good flow of information within the Board and its Committees and between senior management and the Non-Executive Directors. The Company Secretary supports the Chairman in setting the agenda for each Board meeting. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Board diversity

The Company recognises the importance of diversity both at Board level and throughout the whole organisation. The Board remains committed to increasing diversity. Consequently, diversity is taken into account during each recruitment and appointment process and the Company is determined to attract outstanding candidates with diverse backgrounds, skills, ideas and culture.

As a result, the Board plans to participate in The Future Boards Scheme, an initiative launched by The 30% Club UK, the UK Government and Board Apprentice giving senior women a unique opportunity to get board experience to progress their careers to the next level. The Group believes the scheme has the potential to significantly grow the talent pipeline of women executives by giving women 12 months' experience on one of the Group's subsidiary boards.

Election and re-election of Directors

In accordance with the Company's Articles of Association and the Code, the Directors are required to submit themselves for re-election annually at the Annual General Meeting. Each Director will offer themselves for re-election at the next Annual General Meeting taking place at 11.00am on 9 May 2017.

Induction and professional development

The Company has a policy in place to ensure that all new Board appointments receive a full, formal induction tailored to the needs and experience of the new Director. They are also provided with opportunities to meet major shareholders.

As there were no new appointments to the Board during 2016, there were no new inductions made. Adhering to the requirements of the Code, the Chairman during 2016 regularly reviewed and agreed with each Director their training and development needs, taking into account their individual qualifications and experience. The Directors have full access to a regular supply of financial, operational, strategic and regulatory information to help them discharge their responsibilities and keep themselves fully informed of developments at the Company and each of its operating subsidiaries.

Independent advice

All Directors have access to independent professional advice at the Company's expense and the Board and its Committees are provided with sufficient resources to undertake their duties.

Matters reserved for the Board

The Board's full responsibilities are set out in the matters reserved for the Board and its powers and duties are set out in the Company's Articles of Association and the relevant regulations applicable to the Company as a public listed company registered in England and Wales.

The Board is primarily responsible for:

- the overall leadership of the Group and setting core values and standards;
- determining the strategic direction of the Group, including the approval of the Group's strategic aims and objectives;
- approval of the annual operating and capital expenditure budgets and any material changes to them;
- oversight of the Group's operations;
- reviewing the Group's performance in light of the Group's strategic aims, objectives, business plans and budgets and ensuring that any necessary corrective action is taken;
- approval of the Group's annual and half-year results;
- ensuring adequate succession planning for the Board and senior management;
- determining the Company's remuneration policy;
- approving major capital projects, acquisitions and divestment;
- promoting good governance and seeking to ensure that the Company meets its responsibilities towards all stakeholders;
- approval of the Group's risk management and control framework and the appointment/re-appointment of the Group's external auditor (following recommendations from the Audit Committee);
- approval of internal regulations and policies;
- the Group's finance, banking and capital structure arrangements;
- the Company's dividend policy; and
- shareholder circulars, convening of meetings and stock exchange announcements.

In addition, the Board has adopted formal authorisation limits which set out the levels of authority for the Executive Directors and employees below Board level to follow when managing the Group's business on a daily basis.

Activities covered during 2016

During 2016 the Board had 11 scheduled meetings in London to review current trading and operational performance of the business as well as to consider the following items of business:

Month	Business matters discussed
January	• Review and approval of the 2016 Group budget
February	• Review and approval of the 2015 Annual Accounts • Review and approval of the 2015 Group results announcement
March	• Approval of the divisional LTI schemes • Approval of the executive director's 2016 bonus plan
April	• Completion of the acquisition of Everyday Loans Group
May	• Directors' strategy day(s)
June	• Review of the Loans at Home and Everyday Loans Group debt funding facilities
July	• Review and approval of the 2016 half-year accounts
September	• Review of the Group's funding strategy • Review of analyst consensus and 2016 Company forecast
October	• Resignation of Robin Ashton as a Non-Executive Director
November	• Consideration of the appointment of a Non-Executive Director to the Board
December	• Consideration of a potential acquisition target • Review and approval of the 2017 Group budget

Matters to be covered in 2017

- Review of the long-term vision and strategic direction of the Group
- Review of the financial performance of the Group
- Analysing the Group structure and management performance
- Group projections
- Review of Group funding
- Potential acquisitions
- Undertaking an annual review of the Group strategy
- Approval of the Groups' interim and annual results.
- Approve the appointment of an additional Non-Executive Director

Board and committee meetings

All Directors are required to attend Board meetings as well as committee meetings for which they hold membership alongside an additional two-day, off-site strategy meeting to review and agree the Group's three-year business and financial strategy.

Governance

Governance report continued

The strategy meeting in 2016 was attended by the Directors, Company Secretary, senior management (where appropriate) and the divisional Chief Executives. The agenda for the strategy day included:

- a facilitated discussion of the Group's future financial and funding strategy;
- a presentation and consideration of the business strategy of each of the Group's three divisions;
- review and discussion of the non-standard finance consumer market in which the Group operates; and
- a presentation on the investor relations, public affairs and communications plans for the Group.

All Directors receive Board papers and minutes for all the meetings, which are circulated approximately one week in advance of scheduled meetings. All Directors have access to the Company Secretary and independent professional advice at the Company's expense, as and when required. A table reflecting the Directors' attendance at Board meetings is shown below.

Conflicts of interests

Directors have a statutory duty to avoid situations in which they have, or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Directors. The Companies Act 2006 and the Company's Articles of Association require the Board to consider any potential conflicts of interest. The Board considers and, if appropriate, authorises each Director's reported actual and potential conflict of interest, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is, or may be affected. All potential conflicts approved by the Board are recorded in a Conflicts of Interest Register, which is reviewed by the Board at least quarterly to ensure that the procedure is working effectively.

Relations with shareholders

The Company keeps shareholders informed of all material business developments via its public disclosures including its annual report, its half-yearly financial statements and periodic trading update announcements. In addition, other price-sensitive information is disclosed via a regulatory news service. All these items are available from the Company's corporate website: www.nonstandardfinance.com. The website also contains other information about the Group and its business.

The Group Chief Executive and Chief Financial Officer ensure that the views of shareholders are communicated to the Board and that the Company's governance and strategy are discussed with major shareholders. The Board aims to foster close relations with its investors and sell-side analysts through a regular and comprehensive programme of investor relations activity.

Throughout the year, the Chairman, Group Chief Executive, Chief Financial Officer and Director of Investor Relations and Communications meet with shareholders on request or via organised investor roadshows supported by the Group's brokers, as well as by attending and presenting at industry and investor conferences. During 2016 there were over 90 such meetings.

Annual General Meeting

Shareholders are invited to attend the Company's Annual General Meeting ('AGM'), where Board members and the Board's advisers are available to answer any shareholder questions. The 2017 Annual General Meeting of the Company is to be held at Bell Pottinger, 330 High Holborn, London, WC1V 7LU at 11.00am on 9 May 2017. The Notice of Meeting, contained in a separate letter from the Chairman, includes a commentary on the business to be transacted at the General Meeting.

Nick Teunon
Chief Financial Officer and Company Secretary
31 March 2017

Attendance at meetings

Director	Attendance and total number of meetings to which the Director was entitled to attend	Explanation
John van Kuffeler	11/11	
Nick Teunon	11/11	
Miles Cresswell-Turner	10/11	Diary conflict required a change to the original date scheduled
Charles Gregson	11/11	
Heather McGregor	10/11	Diary conflict required a change to the original date scheduled
Robin Ashton (resigned 31 October 2016)	9/9	Robin Ashton was only eligible to attend nine board meetings

Governance

Audit Committee report

for the period ended 31 December 2016

Membership

The Audit Committee (the 'Committee') currently consists solely of Non-Executive Directors, one of whom is independent. The provisions of the Code require that the Audit Committee comprises Independent Non-Executive Directors. Given that only one Director is considered to be independent, the Company did not meet the requirements of the Code in this regard. The Nomination Committee continues to consider the appointment of an additional Non-Executive Director and the Board continues to consider appointments to this position. Following the resignation of Robin Ashton from the Board on 31 October 2016, Charles Gregson has been appointed as the Chairman of the Committee.

The names of the Directors and their biographical details are set out on pages 40 to 41.

Role and responsibilities

The key objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results. In doing so, the Committee operates within its terms of reference. The primary functions of the Committee include:

- monitoring the integrity of the financial statements including the annual and half-yearly reports of the Group and any other formal announcements relating to the Company's financial performance and reviewing significant financial reporting judgements contained in them before these are submitted to the Board for final approval;
- making recommendations to the Board concerning any proposed, new or amendment to an existing accounting policy;
- advising the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable;
- meeting with the external auditor post-audit at the reporting stage to discuss the audit, including any problems and/or reservations arising from the audit and any matters that the auditor may wish to discuss (in the absence of NSF management, where appropriate);
- reviewing the adequacy and effectiveness of the Company's internal audit review function and internal financial controls;
- ensuring appropriate co-ordination between the internal audit function and the external auditor;
- reviewing: (i) the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns about possible wrongdoing in financial reporting or other matters; (ii) the Company's procedures for detecting fraud; and (iii) the Company's systems and controls for the prevention of bribery;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor, providing recommendations on their remuneration and approving the terms of engagement of the external auditor;
- overseeing the relationship with the external auditor and assessing the external auditor's independence and objectivity and the effectiveness of the audit process; and
- developing and implementing policy on the engagement of the external auditor to supply non-audit services.

Meetings and attendance

The Committee met on nine occasions during the year.

	Attendance and total number of meetings that the Director was entitled to attend
Charles Gregson (Chairman)	7/9
Heather McGregor	8/9
Robin Ashton (resigned 31 October 2016)	8/8

The Directors above without Robin Ashton met on two occasions for a discussion with the external auditor without executive management present.

Committee meetings are attended by the joint Chief Financial Officer/Company Secretary. The external auditor is invited to attend meetings of the Committee and other non-members are sometimes invited to attend all or part of any meeting as and when appropriate and necessary.

Significant issues and areas of judgement considered by the Committee

Throughout 2016 the Committee determined that the following areas of the financial statements were of significant interest.

1. Impairment of goodwill:
Management performed a goodwill impairment assessment as at 30 June 2016 and 31 December 2016 by determining the recoverable amount, based on a fair value less costs to sell of each of the cash generating units, and comparing these to the respective net asset values and carrying values of goodwill. The Committee challenged the appropriateness of management's key assumptions and was satisfied with the conclusion that no impairment of goodwill was required. Further detail in respect of management judgements and estimates, along with the respective sensitivity of the headroom to those judgements and estimates is set out in notes 2 and 13 to the financial statements.

2. Impairment of customer receivables:
The assessment of provisions for impairment losses against customer receivables requires management to make significant judgements. The Committee regularly challenges the appropriateness of management's judgements and assumptions underlying the impairment provision calculations and concluded that the provisions held against the loan book are reasonable. Further detail in respect of the assumptions is set out in note 2 to the financial statements.

3. Acquisition accounting and intangibles:
On 13 April 2016, the Group completed the acquisition of the Everyday Loans Group. IFRS 3 Business Combinations requires assets and liabilities acquired to be recognised initially at their fair values. Intangible assets must also be recognised at fair value if they are separable or arise from other contractual rights. The Committee challenged management's identification and valuation of assets on acquisition and found the methodology used to be appropriate. Further detail in respect of management judgements and assumptions is set out in notes 2, 13, 14 and 24 to the financial statements.

Governance
Audit Committee report continued
for the period ended 31 December 2016

4. Review of the half-year results:
- Review of impairment of goodwill, intangibles and customer receivables valuation.
- Review of acquisition accounting.
- Review of interim results.
- Review and approval of the going concern paper which confirmed it was appropriate to prepare the interim results for the six months ended 30 June 2016 on a going concern basis.
- Review of the report on the interim review from the external auditor.
- Review of the interim results announcement.
- Discussion with the external auditor without any Executive Director or employee being present.

5. Review of the Annual Report and Financial Statements:
- Review of impairment of goodwill, intangibles and customer receivables valuation carried out by management.
- Review of the calculation of goodwill and intangibles assets on the acquisition of the Everyday Loans Group.
- Review and approval of the going concern paper which confirmed it was appropriate to prepare the Annual Report and Financial Statements for the year ended 31 December 2015 on a going concern basis.
- Review of full-year results and the form and content of the draft Annual Report and Financial Statements.
- Discussion with the external auditor without any Executive Director or employee being present.
- Review of the preliminary results for the year ended 31 December 2015.
- Review of the statement on internal controls.

6. Internal audit function:
The internal audit function which is provided by a third-party regularly reports on internal audit activities to the Committee. A review of the internal audit activity is approved by the Committee. The internal audit activities encompass all divisions within the Group and therefore provide a consistent and balanced overview of the Group to the Committee. The Committee met with management separately, to give management the opportunity to raise issues with the internal audit function directly to the Committee.

7. Non-financial audit fees paid to the external auditor for the year:
A review of the non-financial audit fees is undertaken by the Committee and an analysis of the non-audit fees paid to the external auditor for the provision of non-audit services is provided on page 88 of the Annual Report.

These issues were discussed with management and the external auditor to ensure that the required level of disclosure is provided and that the appropriate level of rigour has been applied where any judgement may be exercised.

External audit
The Company's auditor is Deloitte LLP, which has been in office since 22 October 2014.

As noted above, the Committee is responsible for assessing the efficacy of the external auditor, for monitoring the independence and objectivity of the external auditor, for considering the reappointment of the external auditor and for making recommendations to the Board.

The Committee also reviews the performance of the auditor taking into consideration the services and advice provided to the Company and the fees charged for these services. Details of the auditor's total fees for the year can be found on page 88.

On the basis of the auditor's performance, the Committee considers Deloitte's selection to be in the best interests of the Company and has recommended to the Board that Deloitte should be proposed for reappointment at the forthcoming Annual General Meeting.

The Committee has considered the independence of Deloitte and the level of non-audit fees and believes that the independence and objectivity of the external auditor are safeguarded and remain strong. The Committee will continue to review the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the current financial year.

Non-audit work
The Committee monitors the level of non-audit work carried out by the external auditor and seeks assurances from the auditor that it maintains suitable policies and processes ensuring independence, and monitors compliance with the relevant regulatory requirements on an annual basis.

During 2016 the level of non-audit fees amounted to £44,000 (2015: £1.76m). The non-audit work carried out during the year related to tax and VAT (2015: tax, due diligence and corporate finance). The fees paid to the external auditor are set out in note 5 on page 88. The fees for non-audit work carried out by the auditor in 2016 represents 13% (2015: 748%) of audit fees.

The Company during 2016 had a formal non-audit work policy in place. In line with the non-audit policy, the Committee has challenged the appointment of the external auditor for non-audit work during the period and expects it to clearly demonstrate its independence on an ongoing basis through its work and at Committee meetings.

Internal audit
The Committee appointed KPMG, one of the UK's leading accounting firms as Internal Auditor to the Group during 2016. The Internal Audit function is managed by KPMG. The Internal Auditor reports directly to the Committee which ensures the independence and effectiveness of the Internal Auditor. The Internal Auditor provides regular reports to the Audit Committee as well as the Risk Committee and to the Board as a whole.

Charles Gregson
Chairman of the Audit Committee
31 March 2017

Governance

Nomination Committee report

for the period ended 31 December 2016

The principal purpose of the Nomination Committee (the ‘Committee’) is to monitor the balance of skills, knowledge, experience and diversity on the Board and recommend any changes to the composition of the Board. This report gives more detailed information on how the Committee performed its duties.

Membership

The provisions of the Code require that the Nomination Committee comprises of Independent Non-Executive Directors only. As only one Director is considered to be independent, the Company did not meet the requirements of the Code in this regard. However, given the make-up of the Group and its current stage of development, the Board considers that despite not meeting this requirement, the Nomination Committee can fulfil its role effectively in its current form. Following the resignation of Robin Ashton, the Committee continues to consider the appointment of an additional Independent Non-Executive Director.

Following the appointment of John van Kuffeler as Group Chief Executive on 19 December 2016, Mr van Kuffeler stepped down as Chairman and as a member of the Committee. Charles Gregson has been appointed as Chairman of the Committee.

Meetings and attendance

	Attendance and total number of meetings that the Director was entitled to attend
Charles Gregson (Chairman)	2/2
Heather McGregor	2/2
John van Kuffeler (stepped down from the Committee on 19 December 2016)	2/2
Robin Ashton (resigned 31 October 2016)	1/1

The joint Chief Financial Officer/Company Secretary attends all Nomination Committee meetings.

The biographies of the members are set out on pages 40 to 41.

Role and responsibilities

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any other committees of the Board. To fulfil that role, the Committee’s primary functions include:

- following an evaluation of the balance of skills, experience, independence and knowledge of the Board, identifying and nominating candidates who are assessed as having sufficient time to devote to their responsibilities to fill Board vacancies and making appropriate recommendations to the Board for the appointment of Directors;
- reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any proposed changes;
- reviewing and considering the performance and effectiveness of the Committee through the results of the Board evaluation process; and
- considering and formulating succession planning for Directors and senior executives.

Principal activities of the Committee during 2016:

- Reviewing the composition of the Board and the balance of Executive and Non-Executive Directors;
- Reviewing the succession plans for the Board and the senior management within the Group;
- Commencing the new selection process for a new Independent Non-Executive Director; and
- Reviewing the Board’s training programme to ensure that the Directors have all the requisite skills to discharge their duties on the Board.

Diversity

The Company and each of its operating companies seek to engage, train and promote employees on the basis of their capabilities, qualifications and experience. Discrimination or pressure to discriminate by any of the Group’s employees, contractors or customers in respect of age, sex, sexual orientation, race, ethnic origin, marital status or civil partnership, nationality, disabilities, political or religious beliefs is strictly forbidden. The Group seeks to pursue diversity, including gender diversity, throughout the business, and while the Board endorses the aspirations of the Davies Review on Women on Boards, the Board is not committing to any specific targets. Our Board currently has one female Director and the Committee will give due consideration to Board balance and diversity when recommending new appointments to the Board. The Board will also ensure that its own development in this area is consistent with its strategic objectives and enhances its overall effectiveness.

Board induction

All Directors are required to undertake a formal and rigorous induction to the Group upon joining the Board. As no appointments were made to the Board during 2016 no inductions were carried out during the year.

Training

Throughout the year, Directors participate in an on-going programme of training and professional development. The internal training includes topical issues that are relevant to the regulatory environment surrounding the Group.

Board evaluation

During the year the Board completed its first internal evaluation process. The results of the evaluation will be reviewed by the Committee and any actions then implemented during 2017.

Areas of focus in 2017

The main area of focus for the Committee in 2017 is to recommend the appointment of a suitable candidate to fill the vacancy of a Non-Executive Director following the resignation of Robin Ashton in October 2016.

The Committee will also oversee the recruitment of a permanent Chief Executive Officer for Loans at Home, following the announcement of the departure of the previous CEO in January 2017.

The Committee will also continue to fulfil its general responsibilities, with particular emphasis on compliance with the UK Corporate Governance Code and succession planning.

Charles Gregson
Chairman of the Nomination Committee
31 March 2017

Governance

Risk Committee report

for the year ended 31 December 2016

The principal purpose of the Risk Committee (the 'Committee') is to assist the Board in its oversight of risk within the Company with particular focus on risk appetite, risk profile and the effectiveness of the Company's internal controls and risk management systems.

Membership and attendance

The Committee consists of the Non-Executive Directors of the Company. The joint Chief Financial Officer/Company Secretary regularly attends Committee meetings. Other relevant parties are also invited to attend Committee meetings, as appropriate.

The Directors' attendance at the meetings during 2016 is recorded in the table below:

	Attendance and total number of meetings that the Director was entitled to attend
Heather McGregor (Chairman)	4/4
Charles Gregson	4/4
Robin Ashton (resigned 31 October 2016)	3/3

Cross-membership between each of the Board's committees ensures that all material risks and related issues are appropriately identified, communicated and taken into account in the decisions of each committee and that of the Board. The Committee met four times during the year. In addition, the Committee Chair attended meetings with both the Executive Directors and management at Everyday Loans and Loans at Home and also participated in customer visits with Loans at Home agents to further assess the Company's risks.

Role and responsibilities

The Board has delegated the oversight of risk management to the Committee, although it retains overall accountability for the Company's risk profile.

The Committee's primary functions include:

- the assessment of material risks and the Company's overall risk management framework. The Committee takes account of the current and prospective macroeconomic, financial and regulatory environment in order to advise the Board in respect of the most appropriate configuration of the Company's overall risk appetite, tolerance and strategy. In doing so, the Committee considers the Company's ability to identify and manage new risk types, reviews any material breaches of risk limits and reviews the effectiveness of the Company's internal controls and risk management systems;
- responsibility for overseeing and challenging stress and scenario testing, the provision of advice in relation to risk and for the formulation of the Company's risk policies; and
- working closely with the Audit Committee in order to fully review the effectiveness of the Company's risk management and internal control systems.

Activities during the period

The Committee performed a comprehensive review of the Company's risk management and internal control systems, including all material, financial, operational and compliance controls, identifying the key risks affecting the Company. These are set out on pages 24 to 25.

A key theme for the Committee has been to ensure that appropriate risk management strategies are continuously monitored and are implemented effectively. The Committee worked on the development of the Company's risk management capabilities by creating an effective enterprise risk management framework and by undertaking regular and detailed analysis of the key risks faced by the business.

During the year to 31 December 2016 the Committee focused on the following:

- detailed review of the lending and collections carried out by the internal auditors with the findings reported to the committee;
- review of liquidity and credit risk;
- identification of Group risks with action plans put in place to mitigate the risks;
- review of the risk appetite status across the Group; and
- review of cyber security across the Group.

Viability statement

In accordance with the 2014 FRC Corporate Governance Code, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for the next three years. The Directors' assessment has been made with reference to the Group's current position, strategy, as laid out in the Strategic report (see pages 15 to 21) and the Group's principal risks and uncertainties and how these are managed (see pages 24 to 25). In particular, noting the ability of the Group to reduce lending at the point of peak seasonal demand and the Company's intention to raise additional debt funding to support lending ambitions.

The strategy and associated principal risks underpin the Group's three-year plan and scenario testing, which the Directors review at least biannually. The review of the three-year plan is strengthened by regular updates from the divisional management teams.

The three-year plan is built on a divisional basis using a bottom up approach. The plan makes certain assumptions about future economic conditions, the regulatory environment, divisional performance and growth and the ability to refinance existing debt facilities as they fall due. This plan is then stress tested considering downside scenarios. These scenarios consider financial and regulatory downsides. The financial downside scenario uses the 2008/9 financial crisis as its basis and therefore reflects a number of principal risks of the business. The regulatory downside scenario is based on fundamental changes in the business model as a result of regulatory change.

Following the assessment, the Directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out on page 68.

Areas of focus in 2017

The Committee intends to continue to improve and embed the Company's risk management framework during 2017. Key tasks include:

- further review and enhancement of the Group Risk management framework;
- review of liquidity and credit risks; and
- development of a risk register across the Group.

Heather McGregor
Chairman of the Risk Committee
31 March 2017

Governance

Directors' remuneration report

for the year ended 31 December 2016

This report has been prepared in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') as well as the Companies Act 2006. This report is set out in the following key sections:

Part A: Annual Statement

Part B: Our remuneration at a glance

Part C: Directors' Remuneration Policy
1. Executive Director remuneration policy
2. Illustrations of application of remuneration policy
3. Approach to recruitment and promotions
4. Executive Director service contracts and payment for loss of office
5. Consideration of employee remuneration and shareholders
6. Non-Executive Director remuneration policy and letters of appointment

Part D: Annual Report on Remuneration
1. Single figure remuneration table: Executive Directors
2. Implementation of remuneration policy for the Executive Directors for 2017
3. Consideration by the Committee of matters relating to Directors' remuneration for 2016 and 2017
4. Group Chief Executive and employee pay
5. Single figure remuneration table: Non-Executive Directors
6. Directors' shareholding and share interests
7. Shareholder voting

Part A: Annual Statement

Dear Shareholder

I am pleased to present to you our Directors' remuneration Report for Non-Standard Finance plc ('NSF'). In my letter last year I set out the background to the establishment of the Remuneration Committee (the 'Committee') and its work since the IPO. Our 2015-16 review of market remuneration showed that salaries and bonuses for Executive Directors were positioned in the lower quartile when compared to financial companies of a similar size. As we grow further, we expect that the position of the Group's Executive Directors will fall further behind those of the peer group. Nevertheless, the executive team and the Committee together were keen to take a prudent approach that focused first and foremost on delivering value to shareholders and this continues to be the case.

With this in mind, we adopted a policy that minimises our fixed costs as far as possible whilst providing sufficient incentive opportunity to drive and deliver our strategy. We have been considering the incentive opportunity and whether it aligns management remuneration and incentives sufficiently with shareholder returns over the long-term.

Our new Directors' Remuneration Policy

As noted above, the incentive arrangements for the founding Executive Directors include a salary and bonus to reflect the size and stage in the Company's development plus the Founder Share scheme for founding Executive Directors. The Founder Share scheme is subject to share price performance, although the conditions can be measured at any time after the first anniversary of the acquisition of Loans at Home and it does not provide a lock-in for participants as share price performance is the only condition of vesting. New joiners are not able to be issued with new shares under the Founder Share scheme.

The Committee has kept the Founder Share scheme and its part in rewarding and retaining key executives under review. As a result of this review, the Committee and I concluded that a new long term incentive ('LTI') policy was required as there was no mechanism to retain current executives and no way to allow new senior joiners to directly participate in the scheme. Having consulted with some of our larger shareholders beforehand, we therefore propose to introduce a value creation plan for the existing Executive Directors and new senior joiners which would align key executives' interests with those of shareholders and which would not deliver any return to these executives before investors achieve a reasonable return.

Under the proposed plan, participants would share in a pool of 15% of the growth in value (market capitalisation) of the Company above a share price hurdle of £1.10, being 29% above the price at which the majority of the Group's shares were issued and 10% above the highest price at which investors subscribed for shares. It also represents a premium of approximately 100% to the current share price.

Performance would be tested against this hurdle after four years starting from 1 January 2017 (i.e. 31 December 2020), though payment would be deferred until the end of the fifth year (i.e. 31 December 2021).

Awards held by participants that cease employment during the four year performance period will either lapse or be restricted in value depending on the reason for employment ceasing. The Committee will have an overriding discretion to limit the amount payable under the awards or claw back awards that have been made if it considers that the Group's results have been achieved in an inappropriate manner.

The pool in which participants will share will be diluted and adjusted for any new issue of shares. Depending on the amount of equity that needs to be raised this could fall significantly. There will be a cap on the maximum number of shares issued by the Company under the LTI such that, together with any shares issued under the Founder Share scheme, no more than 5% can be issued in any 10 year period and that, together with all other share incentive plans offered by the Company, no more than 10% can be issued in any 10 year period. Any awards earned in excess of this will be satisfied through market purchase of shares by the Company.

We consider that this new plan provides a testing, but real and valued opportunity for current and new management, and will act as a strong retention mechanism for key talent over the long-term.

Governance
Directors' remuneration report continued

Shareholder approval for this new part of the policy will be sought at the AGM to be held at 11.00am BST on 9 May 2017. Approval will also be sought for an all employee sharesave plan the 'Sharesave Plan', in which the Executive Directors are also eligible to participate.

As the LTI was not included in the Directors' Remuneration Policy approved at the 2016 AGM, we are proposing a new Directors' Remuneration Policy at the 2017 AGM. The terms of the new Policy will be the same as the current Policy approved at the 2016 AGM apart from the inclusion of the LTI, further details of which are set out below.

Business context and Committee decisions on remuneration

As you will have read earlier in this Annual Report, the Company has made significant progress in 2016. Having completed two acquisitions, the Group is now a significant player in the UK's non-standard finance market with a combined loan book of approximately £165m (before fair value adjustments), a network of almost 90 offices, over 500 staff and a network of 785 self-employed agents. The Group also began paying dividends with a half-year dividend of approximately £1.0m paid in October 2016 and a final recommended dividend of approximately £2.9m that if approved, will be paid in June 2017.

Whilst much was achieved during the year, no bonuses were paid to the Executive Directors as the financial performance targets that were set at the start of the year were not met.

In line with the bonus targets agreed with the Executive Directors under their contracts of employment, we intend to set the on-target bonus opportunity for the 2017 financial year at 75% of base salary and to set the maximum bonus opportunity at 100% for 110% achievement of target. Threshold vesting at 25% of base salary will be set at 90% of target. Straight-line vesting will apply between these points.

The bonus will be subject to performance against a combination of financial and non-financial targets, split as to 70% financial and 30% non-financial. For the 2017 financial year, the financial target will be budgeted profit before tax and the non-financial targets will include conduct-based measures which seek to reward the delivery of good customer outcomes through appropriate affordability assessments and appropriate treatment of vulnerable customers together with appropriate collections, arrears and forbearance practices.

A value creation plan has been introduced at Everyday Loans (including Trusttwo) so that their key employees can participate in the growth in value of the Company. Participants in the plan will share in the growth in value of Everyday Loans (including Trusttwo) above a compound annual growth rate of 12% over three years and the plan thereby encourages participants to deliver growth as early as possible. Vested awards will be satisfied in shares in the Company, or cash at the Company's choice.

Format of this report and matters to be approved at our AGM in May 2017

The remainder of this report is split out into the following three sections:

Part B: Our remuneration at a glance (page 53).
Part C: Our new Directors' Remuneration Policy (pages 54 to 61).
Part D: Annual Report on Remuneration providing details of the payments made to Directors in 2016, as well as other statutory disclosures (pages 61 to 65) and which complies with the requirements of the Listing Rules of the UK Listing Authority and the UK 2014 Corporate Governance Code.

At our 2017 AGM, resolutions to approve the new Directors' Remuneration and the Annual Report on Remuneration and this letter will be put to shareholders. I ask for your support on both resolutions.

The Committee and I are keen to hear and actively take note of your views as shareholders on our remuneration strategy.

On behalf of the Remuneration Committee and Board

Charles Gregson
Chairman of the Remuneration Committee
31 March 2017

Part B: Our remuneration at a glance

Ahead of the detailed Directors' Remuneration Policy and the Annual Report on Remuneration, we have below summarised how key elements of the remuneration policy will be implemented for 2017 and the key decisions taken by the Committee in relation to base pay and incentives for the Executives in respect of 2016.

2017 Executive Director remuneration policy

	John van Kuffeler	Nick Teunon	Miles Cresswell-Turner
Base Salary	£ 287,500	£ 230,000	£ 230,000
Annual Bonus			
Maximum:	100% of salary	100% of salary	100% of salary
On-target:	75% of salary	75% of salary	75% of salary
Threshold:	25% of salary	25% of salary	25% of salary

Operation for 2017

- Performance measures are weighted as to 70% financial (profit before tax) and 30% non-financial (including conduct-based measures which seek to reward the delivery of good customer outcomes through appropriate affordability assessments and appropriate treatment of vulnerable customers together with appropriate collections, arrears and forbearance practices).
- Threshold vesting will be set at 90% of target with on-target vesting at 100% and maximum vesting at 110%, with vesting on a sliding scale between these points.
- Bonus is payable in cash following the end of the financial year.

Malus and clawback

Malus and clawback provisions will apply under the Annual Bonus at the discretion of the Committee in appropriate circumstances, such as a participant's material underperformance, material misstatement of the accounts, gross misconduct and fraud, regulatory and similar failures or other reason as determined by the Committee.

	John van Kuffeler	Nick Teunon	Miles Cresswell-Turner
LTI			
% of growth pool allocated to participants:	37.5%	25.0%	25.0%
% of growth in value above £1.10:	5.625%	3.75%	3.75%

Operation for 2017

- Participants will receive awards, which they will hold during the performance period ending on 31 December 2020. Restrictions on the awards will apply during the performance period.
- The value total attributable to the awards will be 15% of the growth in value (market capitalisation) of the Company above a share price hurdle of £1.10 measured at the end of the performance period.
- At the end of the performance period, depending on structure, participants' awards will vest and, in the case of options, become exercisable. If the award, or any part of it, was over shares in a subsidiary of the Company, participants can, shortly after the end of the performance period, exchange their awards for shares in the Company. Regardless of form of award, participants must hold shares received in the Company for a further year before being able to sell them.

Malus and clawback

Malus and clawback provisions will apply under the LTI at the discretion of the Committee in appropriate circumstances, such as a participant's material underperformance, material misstatement of the accounts, gross misconduct and fraud, regulatory and similar failures or other reason as determined by the Committee.

	John van Kuffeler	Nick Teunon	Miles Cresswell-Turner
Pension	10% of salary	10% of salary	10% of salary
Shareholding requirement	100% of salary over 5 years	100% of salary over 5 years	100% of salary over 5 years

2016 year-end decisions made

	John van Kuffeler	Nick Teunon	Miles Cresswell-Turner
2017 salary review	No increase from 1 January 2017	11% increase to £230,000 from 1 January 2017	No increase from 1 January 2017
2016 bonus outcome	No bonuses were paid as performance targets were not met		
Value	£ NIL	£ NIL	£ NIL
% of salary/maximum	NIL	NIL	NIL

Governance
Directors' remuneration report continued

Part C: Directors' Remuneration Policy

This section of the report contains details of the Directors' Remuneration Policy that will govern the Company's future remuneration payments. The policy is intended to apply for three years from the approval of the policy. The policy described in this part is subject to approval by shareholders at the Company's AGM on 9 May 2017. The policy will be displayed on the Company's website, in the Investors section, immediately after the 2017 AGM.

The Directors' Remuneration Policy contains one change from the policy that was approved at the 2016 AGM. This change is the introduction of an LTI for the Executive Directors and senior management.

The Committee has established the policy on the remuneration of the Executive Directors and the Chairman. The Board has established the policy on the remuneration of the other Non-Executive Directors.

1. Executive Director remuneration policy

Remuneration strategy
The Company's remuneration strategy is to provide a remuneration framework based on the following principles:

1 Attract, motivate and retain Executive and senior management in order to deliver the Company's strategic goals and business outputs

2 Encourage and support a culture that delivers good customer outcomes and which adheres to FCA best practice

3 Reward delivery of the Company's business plan and key strategic goals

4 Adhere to the principles of good corporate governance and appropriate risk management

5 Align employees' interests with the interests of shareholders and other external stakeholders and encourage widespread equity ownership across the Group

We believe that the current and proposed remuneration structure will continue to support and motivate our Executive Directors in furthering the Company's long-term strategic objectives including the creation of sustainable shareholder returns.

Furthermore, the Committee is satisfied that the composition and structure of the remuneration package is appropriate and does not incentivise undue risk-taking or reward underperformance. The table below sets out the key elements of the policy for Executive Directors:

Remuneration policy table

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Base salary To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.	Salaries are reviewed annually, and any changes normally take effect from 1 January. When determining the salary of the Executives the Committee takes into consideration: • the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity; • the performance of the individual Executive Director; • the individual Executive Director's experience and responsibilities; • pay and conditions throughout the Group, including the level of salary increases awarded to other employees; • the level of incentive compensation provided to the Executives under the Annual Bonus.	Annual percentage increases are generally consistent with the range awarded across the Group. Percentage increases in salary above this level may be made in certain circumstances, such as a change in responsibility or a significant increase in the role's scale or the Group's size and complexity. The salaries payable to the Executive Directors from 1 January 2017 are disclosed on page 62.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Benefits To provide competitive benefits and to attract and retain high calibre employees.	Reviewed periodically to ensure benefits remain market competitive. Benefits currently include: • Company car for John van Kuffeler. • Life, private medical and income protection insurance. • Other minor benefits as provided from time to time.	Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits.	No recovery provisions apply.
Pension To provide a competitive Company contribution that enables effective retirement planning.	Pension is provided by way of a contribution to a personal pension scheme or cash allowance in lieu of pension benefits.	The maximum contribution to a personal pension scheme or cash in lieu is equal to 10% of base salary.	No performance or recovery provisions apply.
Annual Bonus Incentivises achievement of annual objectives which support the Group's short-term performance goals and protects longer-term interests of the Group.	Bonus awards are granted annually following the signing of the Annual Report and Accounts, usually in March of the year following the reporting period in question. Performance period is one financial year, with pay-out determined by the Committee following the year end, based on achievement against a range of financial and non-financial targets. Malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate, such as a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud, regulatory and similar failures or other reason as determined by the Committee.	Maximum awards under the Annual Bonus are equal to 100% of salary. On-target bonus: 75% of salary. Threshold bonus: 25% of salary.	Performance targets will be set annually by the Committee based on a range of interdependent financial and non-financial measures. Financial targets govern the majority of bonus payments, which may include those related to profit before tax. Non-financial measures will include conduct-based measures which ensure delivery of good customer outcomes through appropriate affordability assessments and appropriate treatment of vulnerable customers together with appropriate collections, arrears and forbearance practices. The Committee has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year. As well as determining the measures and targets, the Committee will also determine the weighting of the various measures to ensure that they support the business strategy and objectives for the relevant year.

Governance

Directors' remuneration report continued

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
LTI LTI for Executive Directors and senior management.	Participants will receive awards which may be structured as awards or options over Ordinary Shares in the Company which may then be exchanged for Ordinary Shares in the Company shortly after the end of the performance period on 31 December 2020. In each case, participants will then be required to hold such shares in the Company for a period of one year.	The number of Ordinary Shares required to settle all such awards, together with any Ordinary Shares issued in connection with the Founder Shares (see below) will be subject to a cap on the maximum dilution possible of 5% in 10 years. There will also be a further cap so that, together with all other share incentive plans offered by the Company, the maximum dilution possible will not be greater than 10% in 10 years. Any awards earned in excess of either cap will be satisfied through market purchase of shares by the Company.	The total value of awards at 31 December 2020 will be determined by the growth in the value of the Company to 31 December 2020 above £1.10. If the average share price of the Company is greater than £1.10, the value of the awards in total will equate to 15% of the excess growth in value, based on market capitalisation, of the Company above £1.10.
Founder Shares awarded to Executive Directors on IPO.	Prior to the IPO the Executive Directors, Charles Gregson and Robin Ashton, were awarded Founder Shares in Non-Standard Finance Subsidiary Limited. Under the terms of these shares the holders of the Founder Shares have the option to require the Company to purchase some or all of their Founder Shares. The purchase price for the exercise of this option may be paid by the Company in Ordinary Shares or as a cash equivalent at the Company's option.	The number of Ordinary Shares required to settle all such options is the number of shares that would have represented 5% of the Ordinary Shares of the Company on (or immediately after) Admission if such Ordinary Shares had been issued at the time of Admission.	A. the Group must make acquisitions with a combined value of at least £50 million; and B. within five years of the Group's first acquisition, shareholders must receive a 25% increase in total shareholder value or 8.5% CAGR (measured on the basis of exceeding such price for 20 trading days out of 30 successive trading days).
All-employee incentives Encourage all employees to become shareholders and thereby align their interests with shareholders.	Eligible employees may participate in the Sharesave Plan and/or Share Incentive Plan and/or Company Share Option Plan or country equivalent. Executive Directors will be entitled to participate on those same terms.	Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.	Not applicable.
Shareholding guidelines To ensure that Executive Directors' interests are aligned with those of shareholders over a longer-time horizon.	The Executive Directors are required to build or maintain (as relevant) a minimum shareholding in the Company over a five-year period. Shares included in this calculation are those held beneficially by the Executive Director and their spouse/life partner.	The shareholding requirement is 100% of salary for Executive Directors.	Not applicable.

Performance measures and targets

The table below sets out the rationale for performance measures chosen in respect of the Annual Bonus:

Element	Performance measures	Rationale	How targets are set
Annual Bonus	A range of financial and non-financial performance measures.	Aligns opportunity with both financial and personal targets.	The performance targets are determined annually by the Committee taking into account market conditions and forecasts.
LTI	Share price of the Company	Aligns interests with those of shareholders and will not deliver a return to participants before investors achieve a return above the prices at which the Company raised equity.	The performance target has been set at share price of £1.10 at 31 December 2020.

Discretion with the Directors' Remuneration Policy

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Changes from the last approved Remuneration Policy

The LTI has been added to since the last approved Remuneration Policy to provide a lock-in for the Executive Directors, which is not provided by the Founder Shares. In addition, the LTI is open to new joiners whereas additional Founder Shares are not available to be issued to such individuals.

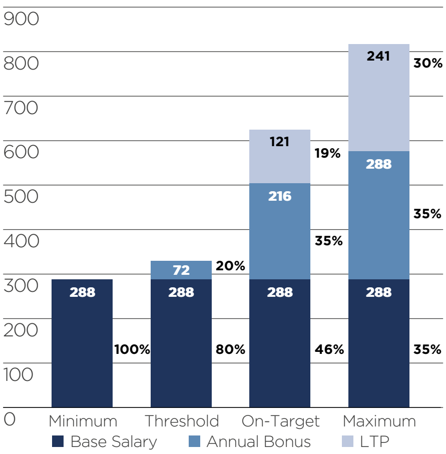
Governance
Directors' remuneration report continued

2. Illustrations of application of remuneration policy

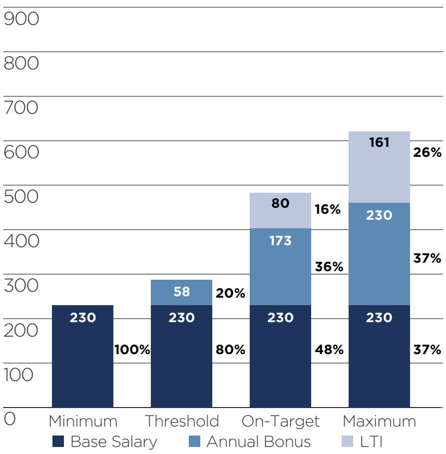
The charts below seek to demonstrate how pay varies with performance for the Executive Directors based on the stated remuneration policy. The charts show an estimate of the remuneration that could be received by Executives Directors under the policy set out in this report. Each of the bars is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the long-term incentive.

The charts indicate that a significant proportion of both target and maximum pay is performance related.

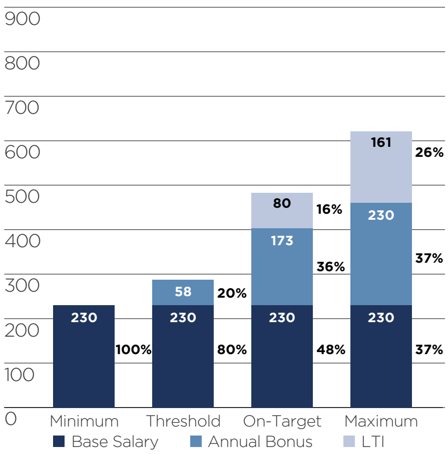
John van Kuffeler (£000)



Nick Teunon (£000)



Miles Cresswell-Turner (£000)



Assumptions used in determining the level of pay-out under given scenarios are as follows:

Element	Minimum	Threshold	On-Target	Maximum
Fixed elements	Base salary at 1 January 2017 Estimated value of benefits provided under the policy Pension – 10% of salary			
Annual Bonus	Nil	25% of maximum	75% of maximum	100% of salary
LTI	Nil	Nil	100% of the IFRS2 value of the award	200% of the IFRS2 value of the award

Awards made under the LTI will be on a one-off basis. The on-target value displayed in the charts represents the expected IFRS2 value of the award. The maximum value displayed represents twice the expected IFRS2 value. The IFRS2 value is considered to be a suitable basis for estimating the potential pay-outs of the LTI awards at the date of the award.

3. Approach to recruitment and promotions

The Company will pay total remuneration for new Executive Directors that enables the Company to attract appropriately skilled and experienced individuals, but is not, in the opinion of the Committee, excessive. The remuneration package for any new recruit would be assessed following the same principles as for the Executive Directors, as set out in the remuneration policy table.

For a new Executive Director who is an internal appointment, the Company may also continue to honour contractual commitments made prior to the internal appointment even if those commitments are otherwise inconsistent with the policy in force when the commitments are satisfied. Any relevant incentive plan participation may either continue on its original terms or the performance targets and/or measures may be amended to reflect the individual's new role, as the Committee considers appropriate. The table below summarises our key policies with respect to recruitment remuneration:

Element	Policy description
Base salary and benefits	• The salary level will be set taking into account a number of factors, including market factors, the individual's experience and responsibilities and other pay structures within the Company and will be consistent with the salary policy for existing Executive Directors. • Benefits may be provided in line with the Company's benefits policy as set out in the remuneration policy table.
Pension	• An Executive Director will be able to receive either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits in line with the Company's policy as set out in the remuneration policy table.
Annual Bonus	• An Executive Director will be eligible to participate in the Annual Bonus as set out in the remuneration policy table. • Awards may be granted up to the maximum opportunity allowable in the remuneration policy table at the Committee's discretion.
Long-term incentives	• An Executive Director may participate in the LTI, to the extent that awards are available, as set out in the remuneration policy table.
Maximum variable remuneration	• The maximum annual variable remuneration that an Executive Director can receive may be up to 100% of salary (i.e. Annual Bonus).
Share buy-outs/replacement awards	• The Company may, where appropriate, compensate a new Executive Director for variable remuneration that has been forfeited as a result of accepting the appointment with the Company. Where the Company compensates a new Executive Director in this way, it will seek to do so under the terms of the Company's existing variable remuneration arrangements, but may compensate on terms that are more bespoke than the existing arrangements where the Committee considers that to be appropriate. • In such instances, the Company will disclose a full explanation of the detail and rationale for such recruitment-related compensation. In making such awards the Committee will seek to take into account the nature (including whether awards are cash or share-based), vesting period and performance measures and/or conditions for any remuneration forfeited by the individual when leaving a previous employer. Where such awards had outstanding performance or service conditions (which are not significantly completed) the Company will generally impose equivalent conditions. • The value of the buy-out awards will broadly be the equivalent of, or less than, the expected value of the award being bought out.
Relocation policies	• In instances where the new Executive is relocated from one work location to another, the Company will provide compensation to reflect the cost of relocation for the Executive in cases where they are expected to spend significant time away from their home location in accordance with its normal relocation package for employees. • The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences; housing allowance; and schooling in accordance with the Company's normal relocation package for employees.
Legal fees	• The Company may, where appropriate, compensate a new Executive Director for legal costs incurred as a result of termination of previous employment in order to accept the appointment with the Company.

Governance

Directors' remuneration report continued

4. Executive Director service contracts and payment for loss of office

Service contracts

When setting notice periods, the Committee has regard to market practice and corporate governance best practice. Executive Directors' service agreements can be terminated by not less than 12 months' prior written notice given by the Executive or by the employer. The table below summarises the service contracts and letters of appointment for our Executive Directors.

	Date of contract	Notice period
John van Kuffeler	19 February 2015	12 months (Executive and Company)
Nick Teunon	19 February 2015	
Miles Cresswell-Turner	1 January 2016	

All service contracts are available for viewing at the Company's registered office and at the AGM.

The Executive Directors are permitted to sit as a Non-Executive Director on the Board of another company with the Company's written consent.

Payments for loss of office

When determining any loss of office payment for a departing Director the Committee will always seek to minimise cost to the Company while complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

The table below sets out, for each element of total remuneration, the Company's policy on payment for loss of office in respect of Executive Directors and any discretion available:

Element	Approach	Discretion
Base salary	12 months under contract	None
Annual Bonus	None payable	Pro-rata bonus may be awarded dependent on reasons for leaving
Founder Shares	No forfeiture	None
LTI	None payable if loss of office is because of resignation or gross misconduct or if the departing employee is not considered to be a good leaver. Otherwise, pro-rata award of shares payable at the end of the performance period and subject to the deferral period.	Pro-rata award of shares may be awarded dependent on the reasons for leaving

5. Consideration of employee remuneration and shareholders

Consideration of shareholder views

The Remuneration Committee takes the views of shareholders seriously and these views are taken into account in setting remuneration policy and practice. Shareholder views are considered when evaluating and setting remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its remuneration policy.

All-employee remuneration

In setting the remuneration policy for Directors, the pay and conditions of other employees of NSF are taken into account, including any base salary increases awarded. The Committee is provided with data on the remuneration structure for management level tiers below the Executive Directors, and uses this information to ensure consistency of approach throughout the Company.

Formal consultation on the remuneration of Executive Directors is not undertaken with employees.

The remuneration policy described above applies specifically to Executive Directors of the Company. The Committee believes that the structure of management and employee reward should be linked to the Company's strategy and performance. The table below illustrates how the remuneration framework operates below the Executive Directors:

Level as at 31 December 2016	Employee numbers	Fixed remuneration	Annual bonus	Long-Term Incentives	All employee share plans	Shareholding guidelines
Senior management	14	√	√	√	√	
Heads of divisions and/or functions	18	√	√		√	
Other employees	505	√	√		√	

6. Non-Executive Director remuneration policy and letters of appointment

Remuneration policy table

The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors.

The table below sets out the key elements of the policy for Non-Executive Directors:

Purpose	Operation	Maximum opportunity	Performance measures and assessment
Fees Core element of remuneration, set at a level sufficient to attract and retain individuals with appropriate knowledge and experience in organisations of broadly similar size and complexity.	Fee levels are sufficient to attract individuals with appropriate knowledge and experience. Non-Executive Directors are paid a base fee. In exceptional circumstances, fees may also be paid for additional time spent on the Company's business outside of the normal duties. Reviewed annually with any changes generally effective from 1 January. Any increases in fees will be determined based on time commitment and take into consideration level of responsibility and fees paid in other companies of comparable size and complexity. Non-Executive Directors do not receive any variable remuneration element or receive any other benefits.	Current fees are set out in the Annual Report on Remuneration on pages 64 to 65. Increases in fees will be in line with the median fee levels of comparable companies.	n/a

Letters of appointment

The Non-Executive Directors do not have service contracts but are appointed under letters of appointment. Appointments are reviewed three yearly and new appointments are made following recommendation by the Nomination Committee.

	Date of appointment
Charles Gregson	19 February 2015
Robin Ashton	19 February 2015
Heather McGregor	19 February 2015

No compensation is payable in the event of early termination apart from the notice period. All letters of appointment are available for viewing at the Company's registered office and at the AGM.

Robin Ashton resigned on 31 October 2016. No compensation was paid in respect of the early termination of his appointment.

Part D: Annual Report on Remuneration

This Annual Report on Remuneration contains details of how the Company's Remuneration Policy for Directors was implemented during the financial year ended 31 December 2016. This report has been prepared in accordance with the provisions of the Companies Act 2006 and the Regulations. An advisory resolution to approve this report and the annual statement will be put to shareholders at the AGM on 9 May 2017.

1. Single figure remuneration table: Executive Directors – audited

The remuneration of Executive Directors, showing the breakdown between components with comparative figures for the prior financial year is shown below. Figures provided have been calculated in accordance with the Regulations.

		Base Salary £000	Taxable Benefits £000	Bonus £000	Long-Term Incentives £000	Pension £000	Other £000	Total £000
John van Kuffeler	**2016**	**288**	**34**	**–**	**–**	**29**	**–**	**351**
John van Kuffeler	2015	215	21	215	–	22	–	473
Nick Teunon	**2016**	**207**	**11**	**–**	**–**	**21**	**–**	**239**
Nick Teunon	2015	155	9	155	–	15	–	334
Miles Cresswell-Turner	**2016**	**230**	**12**	**–**	**–**	**20**	**–**	**262**
Miles Cresswell-Turner	2015	101	–	101	–	9	–	211

Notes
1. Taxable Benefits comprise a car in the case of John van Kuffeler and life, medical and income protection insurance in the case of John van Kuffeler, Nick Teunon and Miles Cresswell-Turner – the values of which have been included in the Taxable Benefits column.
2. The Executive Directors are entitled to receive a contribution to a personal pension scheme or cash in lieu – the value of which has been included in the Pension column.

Governance

Directors' remuneration report continued

Annual Bonus outcomes for the period ended 31 December 2016 – audited

The Remuneration Committee considered that the performance targets for the Annual Bonus were not met and therefore no bonuses were paid to the Executive Directors.

Payments to past Directors or for loss of office – audited

During the year there were no payments to past Directors and no payments for loss of office.

2. Implementation of remuneration policy for the Executive Directors for 2017

Base salary

In setting salary levels for the 2017 financial year for the Executive Directors, the Committee considered a number of factors, including individual performance and experience, pay and conditions for employees across the Company, the general performance of the Company, pay levels in other comparable companies, other elements of remuneration and the economic environment. The salaries for 2017 and the relative increases are set out below.

	Base salary £000		
	2017	2016	% change
John van Kuffeler	**£288**	£288	0%
Nick Teunon	**£230**	£207	11%
Miles Cresswell-Turner	**£230**	£230	0%

Notes

1. The increase in Nick Teunon's base salary in 2017 was made to align his remuneration with the levels of pay of the other Executive Directors. Following this alignment of Mr Teunon's salary, any future increases in his salary will be in line with those applying to the other Executive Directors and will generally be consistent with any increases across the Group. There were no other increases made for Executive Directors.

Pension and benefits

The maximum contribution to a personal pension scheme or cash in lieu is equal to 10% of base salary for all Executive Directors. None of the Executive Directors had prospective rights under a defined benefit pension scheme.

Benefits will be provided to the Executive Directors in line with the Directors' Remuneration Policy.

Annual bonus

Consistent with the Directors' Remuneration Policy the maximum and target bonus potentials for 2017 are:

	Maximum bonus % of salary	On-target bonus % of maximum	Threshold bonus % of maximum
John van Kuffeler	100%	75%	25%
Nick Teunon	100%	75%	25%
Miles Cresswell-Turner	100%	75%	25%

For the 2017 financial year, performance measures include financial measures based on budgeted profit before tax and non-financial measures including conduct-based measures which ensure delivery of good customer outcomes through appropriate affordability assessments and appropriate treatment of vulnerable customers together with appropriate collections, arrears and forbearance practices. Financial and non-financial measures are split 70% financial and 30% non-financial.

Threshold vesting will be set at 90% of target with on-target vesting at 100% and maximum vesting at 110%, with vesting on a sliding scale between these points.

The Board is of the opinion that the precise performance targets for the Annual Bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the financial year. Actual targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs.

LTI awards

The following awards are to be made under the LTI.

	% of growth pool allocated to participants	% of the growth in value
John van Kuffeler	37.5%	5.625%
Nick Teunon	25%	3.75%
Miles Cresswell-Turner	25%	3.75%
Total	87.5%	13.125%

3. Consideration by the Committee of matters relating to the Directors' remuneration for 2016 and 2017

The Committee complies with the UK Corporate Governance Code. The Committee makes recommendations to the Board, within agreed terms of reference, on remuneration for the Executive Directors and has oversight of remuneration arrangements for senior management. The Committee's full terms of reference are available on the Company's website at www.nonstandardfinance.com.

Members of the Committee during 2016	Independent	January 2016	February 2016	February 2016	June 2016	Attendance
Charles Gregson	No	√	√	√	√	100%
Robin Ashton	No	√	√	√	√	100%
Heather McGregor	Yes	√	x	√	√	75%

Note
1. Robin Ashton resigned from the Board on 31 October 2016.

All Committee members attended all Remuneration Committee meetings that took place while they were members of the Committee, save that Heather McGregor missed one meeting in February 2016 due to a diary conflict. None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Group Chief Executive and the Chief Financial Officer attend meetings at the invitation of the Committee, but are not present when their own remuneration is being discussed.

The Committee received external advice in 2016 from PwC during the year. PwC were appointed in May 2015 as advisers after a tender process. PwC are considered by the Committee to be objective and independent. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. The Committee reviewed the nature of all the services provided during the year by PwC and was satisfied that no conflict of interest exists or existed in the provision of these services. The total fees paid to PwC in respect of services to the Committee during the year were £38,900. Fees were determined based on the scope and nature of the projects undertaken for the Committee. PwC also provides valuation advice and assistance with implementation of the Group's long-term incentive arrangements.

During the financial year, there were four Committee meetings. The matters covered at each meeting are covered in the table below:

January 2016	February 2016
• Review of governance and benchmarking in respect of Executive Director remuneration • Review of LTI for Loans at Home and Everyday Loans	• Executive Directors' bonuses for 2016 • Review of LTI for Loans at Home and Everyday Loans

February 2016	June 2016
• Further discussion re. Executive Directors' bonuses for 2016 • Further review of LTI for Loans at Home and Everyday Loans	• Review of decisions on Executive Director remuneration

4. Group Chief Executive and employee pay

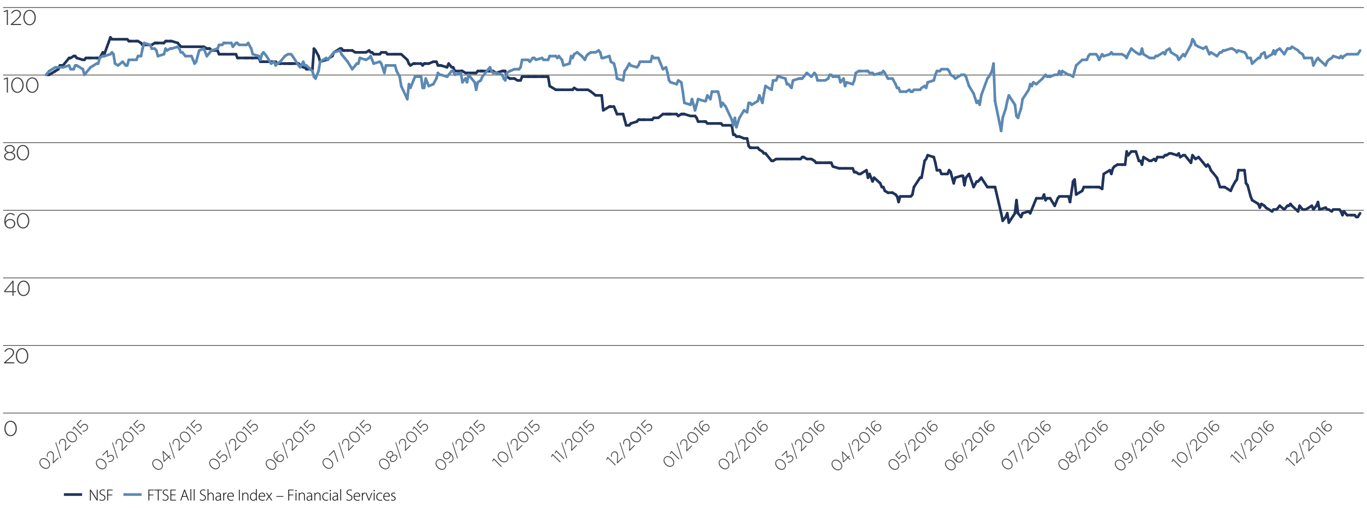
The Committee believes that the current Executive Directors' Remuneration Policy and the supporting reward structure provide clear alignment with the Company's performance. The Committee believes it is appropriate to monitor the Company's performance against the FTSE All Share Index – Financial Services as this Index provides a measure of a sufficiently broad equity market against which the company considers that it is suitable to compare itself.

Governance

Directors' remuneration report continued

The chart below illustrates our Total Shareholder Return performance against the FTSE All Share Index – Financial Services since the date of the IPO in February 2015 to 31 December 2016.

Total Shareholder Return



Despite having fulfilled most of the strategic objectives set out at the time of the Group's Initial Public Offering, the Group's shares have underperformed the FTSE All Share Financial Services Index during the period. Possible reasons for this underperformance include: limited research coverage by sell-side analysts; softer than expected financial performance by Loans at Home; and concerns over future market and regulatory conditions in the UK consumer finance segment.

Group Chief Executive	**2016**	2015
Single figure of total remuneration (£000)	**351**	473
Bonus pay-out (% maximum)	**0%**	100%
Long-term incentive vesting rates (% maximum)	**n/a**	n/a

Percentage change in the Chief Executive Officer's remuneration

The table below compares the percentage increase in the Group Chief Executive's pay on an annual basis with the wider employee population. The Company considers the Group's employees excluding the Executive Directors, to be an appropriate comparator group.

% change from 2015 to 2016	Base salary	Benefits	Annual bonus
Group Chief Executive	15%	19%	-100%
Employee pay	2.25%	0%	See note

Note

1. While there was no change to bonus payments at Everyday Loans (including Trusttwo), no annual bonus payments were made at Loans at Home in 2016.

Relative importance of spend on pay

The table below shows the overall spend on pay for all the Group's employees compared with returns distributed to shareholders.

Significant distributions	**2016**	2015	% change
Employee spend	**£17.8m**	£4.5m	296
Distributions to shareholders Employee pay	**£0.9m**	–	–

Note

1. Employee spend for 2016 includes pay for the employees of Everyday Loans following the acquisition in April 2016.

5. Single figure remuneration table: Non-Executive Directors – audited

The remuneration of Non-Executive Directors showing the breakdown between components, with comparative figures for the prior year, is shown below. Figures provided have been calculated in accordance with the Regulations.

		Fees £000	Benefits/other £000	Total £000
Charles Gregson	**2016**	**50**	**–**	**50**
Charles Gregson	2015	50	–	50
Robin Ashton	**2016**	**42**	**–**	**42**
Robin Ashton	2015	43	–	43
Heather McGregor	**2016**	**75**	**–**	**75**
Heather McGregor	2015	68	–	68

Note
1. Robin Ashton resigned from the Board on 31 October 2016.

Fees to be provided in 2017 to the Non-Executive Directors
The following table sets out the annual fee rates for the Non-Executive Directors:

		2017	2016	% change
Chairman's fee	Charles Gregson	**50**	50	0
Independent Non-Executive Director fee	Heather McGregor	**75**	75	0

6. Directors' shareholding and share interests

Shareholding and other interests at 31 December 2016 – audited
Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain (as relevant) a personal shareholding equal to 100% of their base salary in the Company.

	Shareholding at 31 December 2016			Interests in Founder Shares		
	Number of beneficially owned shares	% of salary held	Shareholding requirement met	Subject to conditions	Vested but unexercised	Total at 28 February 2017
John van Kuffeler	2,114,474	423%	Yes	30	–	30
Nick Teunon	55,921	14%	No	25	–	25
Miles Cresswell-Turner	490,132	123%	Yes	25	–	25
Charles Gregson	256,083			10	–	10
Heather McGregor	61,465			–	–	–
Total	**2,978,075**			**90**	**–**	**90**

Notes
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. Shareholding requirement calculation is based on the share price at the end of the year (£0.575 at 31 December 2016) and base salaries at 1 January 2017.
3. Robin Ashton has retained 4 of his Founder Shares. 10 of his Founder shares were transferred to Nick Teunon and 6 of the Founder Shares were transferred to a senior employee.

Dilution
The Company funds its share incentives through a combination of new issue and market purchased shares. The Company monitors the levels of share grants and the impact of these on the ongoing requirement for shares. In accordance with guidelines set out by the Investment Association ('IA') the Company can issue a maximum of 10% of its issued share capital in a rolling ten-year period to employees under all its share plans.

Non-Executive positions held by Executive Directors
John van Kuffeler retained fees of £40,000 during the year from his Non-Executive position at Paratus AMC Limited.

7. Shareholding voting

The table below shows the binding vote approving the previous Directors' Remuneration Policy and the advisory vote to approve the 2015 Annual Report on Remuneration at the AGM on 30 March 2016.

	Votes for	%	Votes against	%	Votes withheld
Directors' Remuneration Policy	206,163,020	96.09	8,393,636	3.91	500
2015 Annual Report on Remuneration	214,300,608	99.88	256,048	0.12	500

By order of the Board

Charles Gregson
Chairman of the Remuneration Committee
31 March 2017

Governance

Directors' report

Introduction

In accordance with section 415 of the Companies Act 2006, the Directors present their report together with the financial statements for the year ended 31 December 2016. Both the Strategic report on pages 1 to 38 and the Directors' report have been prepared and presented in accordance with, the Companies Act 2006 together with the UK Listing Authority's Disclosure and Transparency Rules ('DTRs') and the Listing Rules ('LRs'). The liabilities of the Directors in connection with both the Strategic Report and the Directors' report shall be subject to the limitations and provided by such law. Other information as to be disclosed in the Directors' report is expressly outlined in this section.

Principal activities and review of the business

The Company is the UK holding company of a Group providing unsecured credit to UK adults. The Company is incorporated and domiciled in England and Wales and is quoted on the Main Market of the London Stock Exchange.

The Strategic report which can be found on pages 1 to 38 of the Annual Report which, amongst other things, provides a more detailed review of business strategy and business model together with commentary on the business performance during the year and outlook for the future. Information relating to the principal financial and operating risks facing the business are set out on pages 24 to 25 of the Strategic report.

Trading results and dividends

The Group's consolidated loss after taxation for the financial year was £7,998,000 (2015: loss of £13,070,000).

An interim dividend of 0.3p per share was paid to shareholders in August 2016 and a further final dividend of 0.9p has been recommended by the Board, payable to shareholders on the share register on 19 May 2017. If approved, the final dividend would be paid on 20 June 2017.

Future business developments

Information on the Company and its subsidiaries' future developments can be found in both the Chairman's Statement on pages 4 to 5 and the Chief Executive's review on pages 12 to 14.

Share Capital

As at 31 December 2016 the share capital of the Company consisted of 317,049,682 Ordinary Shares of £0.05 each and 100 Founder Shares. The Company's issued Ordinary Share capital ranks pari passu in all respects and carries the right to receive all dividends and distributions declared, made or paid on or in respect of the Ordinary Shares. Founder Shares grant each holder the option, subject to the satisfaction of both the significant acquisition condition and the performance condition (which can be satisfied, under certain circumstances, if a Founder is removed from the Board), to require the Company to purchase some or all of their Founder Shares. Further details on the Founder Shares can be found in note 28 to the financial statements. There are currently no redeemable non-voting preference shares of the Company in issue.

There are no restrictions on the transfer of Ordinary Shares or on the exercise of voting rights attached to them, which are governed by the Company's Articles of Association and relevant English law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or in voting rights.

The Company has not acquired its own shares during the financial year.

Further details on the Company's share capital can be found in note 22 to the financial statements.

Substantial shareholdings

The Company has been notified in accordance with the Disclosure and Transparency Rules DTR-5 that as at 28 February 2017 (the latest practicable date before the publication of the report) the following investors have a substantial interest in the issued Ordinary Share capital:

Invesco Asset Management	26.69%
Woodford Investment Management	23.70%
Marathon Asset Management LLP	10.93%
Secure Trust Bank	7.42%
Quilter Cheviot Asset Management	4.02%

The Directors' beneficial interest in the allotted shares of the Company as at 31 December 2016 are outlined below:

Director	Number of Ordinary Shares held
John van Kuffeler	2,114,474
Nick Teunon	55,921
Miles Cresswell-Turner	490,132
Charles Gregson	256,083
Heather McGregor	61,465

As granted by shareholders at the 2016 AGM, the Directors currently have the power to issue and buy-back the Company shares. The Board is seeking to renew these powers at the forthcoming 2017 AGM.

Articles of Association

The Articles of Association set out the basic management and administrative structure of the Company. The Articles regulate the internal affairs of the Company and cover matters including those relating to Board and shareholder meetings, powers and duties of Directors and the transfer of shares.

The Articles may only be amended by a special resolution at a general meeting of the shareholders. A copy of the Articles of Association can be requested from the Company Secretary and are also available for inspection at Companies House.

Directors:

Charles Gregson	Non-Executive Chairman
John van Kuffeler	Group Chief Executive
Nick Teunon	Chief Financial Officer
Miles Cresswell-Turner	Executive Director
Heather McGregor	Non-Executive Director
Robin Ashton	Non-Executive Director (resigned 31 October 2016)

The Directors and their profiles are detailed on pages 40 to 41. All of these Directors above served in office throughout the year under review and up to the signing of the Annual Report with the exception of Robin Ashton who stood down from the Board on 31 October 2016.

In accordance with the Articles of Association and the UK Corporate Governance Code, each Director will offer themselves for re-election at the forthcoming Annual General Meeting.

During the year, no Director had a material interest in any contract of significance to which the Company or any subsidiary undertaking was a party.

Powers of the Directors
Subject to the Articles of Association, English law and any direction granted by special resolutions, the business of the Company is managed by the Board.

Directors' indemnities
The Company's Articles of Association permit it to indemnify the Directors of the Company (or of any associated company) in accordance with section 234 of the Companies Act 2006.

In accordance to the Company's Articles of Association, qualifying third-party indemnities, under which the Company has agreed to indemnify Directors, were in place during the financial year and at the date of approval of the Financial Statements in accordance to the maximum limit as imposed by the law.

The Company may indemnify Directors of all costs, losses, and liabilities which they may incur in or about the execution or as a result of the execution of their duties to the Company or any company associated (as defined in section 256 of the Companies Act 2006) with the Company.

The Company has in place Directors' and Officers' Liability insurance which provides appropriate cover for any legal action brought against its Directors.

Employees
The skills, motivation and energy of our workforce are key drivers for our success. The organisation structures of each of our operating businesses ensure that all staff are aware of our corporate goals and are clear on how their roles help NSF to succeed.

We seek to ensure that all employees and potential employees receive equal treatment (including access to employment and training) regardless of their age, disability, gender reassignment, marital or civil partner status, pregnancy and maternity, race, nationality, ethnic or national origin, religion or belief, sex or sexual orientation. This policy includes those who might become disabled during their period of employment by the Group.

As part of our commitment to treating customers fairly, delivering excellent service and lending responsibly, it is the Group's policy to have in place appropriate processes to offer career and job development opportunities to all employees. Separately, each of our self-employed agents are required to receive regular, ongoing training to ensure that we are responsive to each customer's individual needs. The training programme includes: new starter training, agent monitoring, call monitoring, written training, online training, informal feedback from branch managers and colleague assessment programmes.

The Company is committed to adopting employment practices which follow best practice and intends to set-up an employee share scheme which will provide an opportunity for employees to share in the Company's future success. It is anticipated that the share scheme will be introduced during 2017. It is expected that additional programmes aimed at enhancing employee engagement further will be developed as the Group expands.

Related party transactions
In accordance with IAS 24, no related party transactions took place during 2016.

Post balance sheet events
The Everyday Loans debt facility has been extended so that the Group now has £115m of total committed facilities compared with £95m at 31 December 2016.

Environmental factors
The Board continually considers the Company's impact on the environment and has concluded that at present due to the small size of the Company and the nature of its business, it has a minimal impact. The Board anticipates that as the Company grows in size, the Board will measure and report annually on any material environmental impact in its Annual Report.

Charitable and political donations
The Group made no political or charitable donations in the year ended 31 December 2016.

Health and safety
Health and safety standards and benchmarks have been established in the Company and its divisions and its compliance is monitored regularly by the Board.

Anti-bribery and corruption
In accordance with the Bribery Act 2010, the Group has policies in place to comply with the requirements of the Bribery Act 2010.

Annual General Meeting
The Annual General Meeting of the Company is to be held at Bell Pottinger, 330 High Holborn, London, WC1V 7LU at 11.00am on 9 May 2017. The Notice of Meeting, contained in a separate letter from the Chairman includes a commentary on the business to be conducted at the General Meeting.

Governance
Directors' report continued

Disclosure of information under Listing Rule 9.8.4R
For the purposes of LR 9.8.4R, the information required to be disclosed can be found in the following sections of the Annual Report and financial statements.

Listing Rule requirement	Location in Annual Report
A statement of the amount of interest capitalised during the period under reviews and details of any related tax relief.	Not applicable
Information required in relation to the publication of unaudited financial information.	Not applicable
Details of any long-term incentive schemes.	Directors' remuneration report, pages 51 to 68
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.	Not applicable
Details of any non-pre-emptive issues of equity for cash.	Not applicable
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	Not applicable
Details of parent participation in a placing by a listed subsidiary.	Not applicable
Details of any contract of significance in which a Director is or was materially interested.	Not applicable
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder.	Not applicable
Details of any provision of services by a controlling shareholder.	Not applicable
Details of waiver of dividends or future dividends by a shareholder.	Not applicable
Board statements in respect of relationship agreement with the controlling shareholder.	Not applicable

Auditors
Deloitte LLP, the external auditor for the Company was appointed in 2014 and a resolution proposing their re-appointment will be proposed at the forthcoming AGM.

Directors' statement as to disclosure of information to auditors
Each Director at the date of approval of the Annual Report confirms that so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that she/he ought to have taken as a Director in order to make her/himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

Going concern statement
The Directors have carried out a robust assessment of the principal risks facing the Company, including those that could threaten its business model, future performance, solvency or liquidity. Further information about those risks, how they have changed during 2016 and how they are being managed or mitigated can be found in the Strategic report on pages 24 to 25 and also in the Risk Committee Report on page 50. On this basis, the Directors consider it appropriate to adopt the going concern basis in preparing the Company's financial statements. The Directors will continue to monitor the Company's risk management and internal control systems.

Financial Instruments
Details of the financial risk management objectives and policies of the Group and the exposure of the Group to market, interest rate, credit, capital management and liquidity risk are included on page 101 of the financial statements.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Each of the Directors confirms that, to the best of their knowledge:
- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development or performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties.

Each of the Directors also confirms that they consider the Annual Report and Financial Statements 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Annual Report and Financial Statements 2016 will be published on the Group's website in addition to the normal paper version. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board on 31 March 2017 and signed by the order of the Board.

Nick Teunon
Chief Financial Officer and Company Secretary
31 March 2017

Financial statements

Financial statements

Independent auditor's report

Opinion on financial statements of Non-Standard Finance plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company cash flow statements;
- the Consolidated and Company statements of changes in equity; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • carrying value of goodwill; • provision for impairment losses against loans and receivables to customers; • acquisition accounting; and • revenue recognition.
Materiality	The materiality that we used in the current year was £480,000 which was determined on the basis of 5% of profit before tax before fair value adjustments of £8.3m and amortisation of acquired intangible assets of £10.7m.
Scoping	Our group audit scope focused on the parent company and each of the trading subsidiaries forming the group's four reportable segments which account for 100% of the group's losses before tax. Whilst consistent with prior year, the current year scope includes the Everyday Loans and Trusttwo segments acquired during the year. All entities within the group are audited by the same engagement team.
Significant changes in our approach	Our audit approach for the current year focuses an additional risk of material misstatement, being the carrying value of goodwill arising on business combinations.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 68 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 24 to 25 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation on page 50 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.
We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The risks we report on are consistent with the prior period, with the additional new risks relating to the carrying value of goodwill and the acquisition accounting in relation to Everyday Loans Group (2015: Loans at Home).

Carrying value of goodwill

Risk description

The acquisitions of Everyday Loans Group and Loans at Home have led to the recognition of £132.1m of goodwill in the Consolidated statement of financial position.

IAS 36 Impairment of Assets requires that goodwill acquired in a business combination should be tested for impairment annually and whenever there is an indication that the cash generating unit ('CGU') to which the goodwill is allocated may be impaired.

Management performed a goodwill impairment assessment as at 31 December 2016 by determining the recoverable amount, based on a fair value less costs to sell of each of the cash generating units, and comparing these to the respective net asset values and carrying values of goodwill. Management determined that no impairment of goodwill was required.

The critical judgements and estimates involved in management's impairment assessment are:

- the allocation of all of the goodwill arising on the acquisition of Everyday Loans Group to Everyday Loans (no goodwill allocated to Trusttwo);
- the use of a Group-wide weighted average cost of capital to discount forecast future cash flows;
- the forecast profit after tax for the 2019 year end; and
- the calculation and application of an appropriate price/earnings ('P/E') multiple to the forecast 2019 profit after tax.

Further detail in respect of management judgements and estimates, along with the respective sensitivity of the headroom to those judgements and estimates is set out within the Audit Committee report on pages 47 to 48 and notes 2 and 13 to the financial statements.

Financial statements
Independent auditor's report continued

How the scope of our audit responded to the risk	We challenged the appropriateness of management's key assumptions used in the impairment assessment. Our challenge considered the appropriateness of the methodology for compliance with IAS 36. Additionally, we performed a sensitivity analysis for each of the key judgements and estimates to assess the impact on the recoverable amount of each CGU, with our audit work focussing on the most sensitive. In relation to the allocation of all of the goodwill arising on the acquisition of Everyday Loans Group to Everyday Loans (no goodwill allocated to Trusttwo) we challenged management's judgement, including considering alternative allocation methods and compliance with IAS 36. In relation to the discount rate used, we: • used our valuation specialists to assess the methodology used by management to determine their discount rate; • used our valuation specialists to calculate a range of possible discount rates for the Group; and • considered the appropriateness of using a different discount rate for this assessment of impairment of goodwill to that used at acquisition. In relation to forecast earnings we: • challenged the likely achievability of management's assumptions; • reviewed the consistency of those assumptions with management's assessment of viability and going concern; and • considered the historical quality of forecasting. In relation to the P/E multiple we challenged the P/E multiple using our valuation specialists to calculate a range of other multiples that could have been applied.
Key observations	We found management's methodology for the goodwill impairment assessment to be compliant with IAS 36. All assumptions, including the discount rate, the P/E multiple and the forecast earnings, adopted by management are within an acceptable range. The carrying value of goodwill allocated to the Loans at Home CGU is highly sensitive to the discount rate, future forecast earnings and the P/E multiple applied to those earnings as disclosed in note 13 to the financial statements.

Provision for impairment losses against loans and receivables to customers

Risk description	The gross carrying value of the Group's loans to customers is £204.8m. Against this, management have booked an impairment provision of £24.4m. The assessment of provisions for impairment losses against customer receivables requires management to make significant judgements. Different assumptions can have a material impact on the impairment provision. The key assumptions in calculating the impairment provision are: • the determination of loss events and the quantum and timing of future cash flows. • the use of historical cash collection performance to determine expected future cash flows; reassessed annually by reference to recent experience, seasonality and future expectations to determine their ongoing accuracy. Further detail in respect of the assumptions is set out in note 2 to the financial statements.
How the scope of our audit responded to the risk	We challenged the appropriateness of management's assumptions underlying the impairment provision calculations. This involved assessing the assumptions related to the timing and quantum of cash flows for appropriateness in comparison to current and forecast external market and economic data as well as historical experience. We considered the appropriateness of impairment triggers by comparing the Group's loss event definition to entity specific experience of asset performance, as well as benchmarking to other businesses with similar asset classes. Where applicable, our IT specialists tested the SAS scripts and data flows from source systems to spreadsheet-based models to test the models' completeness and accuracy. Sensitivity analyses were also performed in relation to the key assumptions in order to assess the potential for management bias.

Key observations	The provision models across the Group were found to be working as intended and the underlying assumptions to be reasonable. We found that the collections expectations used are materially consistent with recent performance and budgeted collections. The impairment provisions held against the loan book are reasonable in line with current collections performance.

Acquisition accounting

Risk description	In April 2016, the group acquired the Everyday Loans Group for £235 million. IFRS 3 Business Combinations requires assets and liabilities acquired to be recognised initially at their fair values. Intangible assets must also be recognised at fair value if they are separable or arise from other contractual rights. The identification of intangible assets and determination of fair values requires the exercise of significant judgement. Our work in this respect was focused on the following key areas: • the approach adopted to identify intangible assets; • the recognition of £14.0m of intangible assets in relation to customer lists, broker relationships, technology and brands; • the £23.7m adjustment to recognise the acquired loan book at fair value; • the discount rate used to calculate the net present value of the loan book and intangibles acquired; and • the recognition of £91.9m of goodwill, being the excess of the fair value of the consideration over the fair value of the acquired assets and liabilities. Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 47 to 48 and notes 1, 2, 13, 14 and 24 to the financial statements.
How the scope of our audit responded to the risk	We challenged management's identification and valuation of intangible assets on acquisition against the requirements of IFRS 3. In relation to the completeness of the intangible assets identified and consequent goodwill, we: • challenged the intangible assets identified by management in comparison to those we would normally expect; • used our valuation specialists to challenge the methodology and assumptions used by management to value the intangible assets; • used our valuation specialists to assess the methodology used by management to determine their discount rate; • used our valuation specialists to independently calculate a range of discount rates for the Group; and • recalculated the remaining goodwill (refer to Carrying value of goodwill risk above).
Key observations	We found management's methodology for the recognition and valuation of intangibles arising from the acquisition to be appropriate.

Revenue recognition

Risk description	Revenue recognised in the period amounted to £72.8m. Management calculates revenue on an Effective Interest Rate ('EIR') basis for the purpose of determining revenue recognition in accordance with the requirements of IAS 39 Financial Instruments. The EIR method spreads directly attributable revenues and costs over the behavioural life of the loan. These models are heavily reliant on the quality of the underlying data flowing into the models. The key judgement in Loans at Home revenue recognition is the period over which forecast cash flows are modelled to determine the EIR. Changes to this assumption could significantly affect the revenue recognised in any given period. As part of the acquisition of Everyday Loans, a fair value uplift of the net loan book totalling £23.7 million has been recognised, which will be unwound over the behavioural life of the acquired net loan book. The key judgement in the unwind is the behavioural life of the acquired net loan book. Changes to this assumption could significantly affect the revenue recognised in the period. Further detail in respect of the assumptions is set out within the notes 1, 2 and 3 to the financial statements.

Financial statements

Independent auditor's report continued

How the scope of our audit responded to the risk	We considered the appropriateness of the methodology for compliance with IAS 39 and challenged management's assumptions in respect of cash flow estimates, focusing on the timing and level of early settlements which directly impact estimated behavioural lives, as well as the completeness of other directly attributable costs. We independently recalculated the effective interest rates for Loans at Home's main products and compared these to the EIRs applied in the revenue models noting they were reasonable in line with most recent experience. We assessed the behaviour life and post-acquisition performance of the Everyday Loans loan book to consider whether there is any indication of impairment for which an incremental fair value unwind would be required.
Key observations	We found the models to be working as intended and the underlying assumptions to be reasonable.

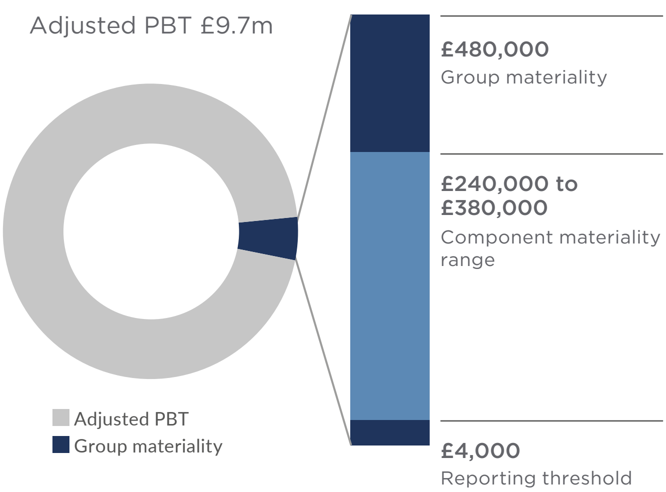
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£480,000 (2015: £800,000)
Basis for determining materiality	We used 5% of profit before tax before fair value adjustments and amortisation of acquired intangible assets as described in the financial statements. For the period ended 31 December 2015, we determined materiality as 1% of total equity.
Rationale for the benchmark applied	Profit based measures are the financial measures most relevant to users of the financial statements. We considered that the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the fair value adjustments and amortisation of acquired intangible assets arising on acquisitions as described in the financial statements. The use of 5% is to align materiality used to that of comparable listed companies. The change to a profit based measure reflects the inclusion of operating subsidiaries for the whole of the current year. This is in comparison with the equity based measure used in the prior period which reflected the Group's first period of operation including the acquisition of its first operating subsidiary in August 2015.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £4,000 (2015: £9,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on the parent company and each of the principal trading subsidiaries within the Group's four reportable segments which account for 100% of the Group's losses before tax. We have audited all subsidiaries using a materiality range of £240,000 to £380,000. Whilst consistent with prior year, the current year scope includes the Everyday Loans and Trusttwo segments acquired during the year.

All entities within the Group have the same engagement partner.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters

Corporate governance statement

Although not required to do so, the Directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the corporate governance statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Financial statements

Independent auditor's report continued

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Rhys, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
31 March 2017

Financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	Before fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	Fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	Year ended 31 December 2016 £'000
Revenue	3	**81,099**	**(8,342)**	**72,757**
Impairment/cost of sales		(23,201)	–	**(23,201)**
Administrative expenses		(44,074)	(10,714)	**(54,788)**
Operating profit/(loss)	4	**13,824**	**(19,056)**	**(5,232)**
Exceptional items	1	–	(626)	**(626)**
Profit/(loss) on ordinary activities before interest and tax		**13,824**	**(19,682)**	**(5,858)**
Finance cost	9	(3,484)	–	**(3,484)**
Profit/(loss) on ordinary activities before tax		**10,340**	**(19,682)**	**(9,342)**
Tax on profit/(loss) on ordinary activities	11	(2,278)	3,622	**1,344**
Profit/(loss) for the year		**8,062**	**(16,060)**	**(7,998)**
Total comprehensive loss for the year				**(7,998)**

Loss attributable to:	
– Owners of the parent	**(7,998)**
– Non-controlling interests	**–**

Loss per share

	Note	Year ended 31 December 2016 Pence
Basic and diluted	10	**(2.60)**

There are no recognised gains or losses other than disclosed above and there have been no discontinued activities in the year.

For the period ended 31 December 2015

	Note	Before fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	Fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	Period from incorporation to 31 December 2015 £'000
Revenue	3	14,657	(5,456)	9,201
Impairment/cost of sales		(3,858)	–	(3,858)
Administrative expenses		(11,340)	(4,030)	(15,370)
Operating loss	4	(541)	(9,486)	(10,027)
Exceptional items	1	–	(6,135)	(6,135)
Loss on ordinary activities before interest and tax		(541)	(15,621)	(16,162)
Finance income	9	70	–	70
Loss on ordinary activities before tax		(471)	(15,621)	(16,092)
Tax on loss on ordinary activities	11	1,271	1,751	3,022
Profit/(loss) for the period		800	(13,870)	(13,070)
Total comprehensive loss for the period				(13,070)

Loss attributable to:	
– Owners of the parent	(13,070)
– Non-controlling interests	–

Loss per share

	Note	Period from incorporation to 31 December 2015 Pence
Basic and diluted	10	(21.25)

There are no recognised gains or losses other than disclosed above and there have been no discontinued activities in the period.

Financial statements
Consolidated statement of financial position
as at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
ASSETS			
Non-current assets			
Goodwill	13	**132,070**	40,176
Intangible assets	14	**17,412**	14,119
Property, plant and equipment	15	**5,459**	1,718
		154,941	56,013
Current assets			
Inventories		**–**	3
Amounts receivable from customers	18	**180,413**	28,412
Trade and other receivables	18	**9,709**	10,275
Cash and cash equivalents	19	**5,215**	7,320
		195,337	46,010
Total assets		**350,278**	102,023
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	20	**8,005**	13,803
Total current liabilities		**8,005**	13,803
Non-current liabilities			
Deferred tax liability	21	**5,890**	3,057
Bank loans	20	**87,300**	–
Total non-current liabilities		**93,190**	3,057
Equity			
Share capital	22	**15,852**	5,264
Share premium	23	**254,995**	92,714
Retained loss		**(22,019)**	(13,070)
		248,828	84,908
Non-controlling interests		**255**	255
Total equity		**249,083**	85,163
Total equity and liabilities		**350,278**	102,023

These financial statements were approved by the Board of Directors on 31 March 2017.

Signed on behalf of the Board of Directors.

John van Kuffeler
Group Chief Executive

Nick Teunon
Chief Financial Officer

Financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital £'000	Share premium £'000	Retained loss £'000	Non-controlling interest £'000	Total £'000
At incorporation		–	–	–	–	–
Total comprehensive loss for the period		–	–	(13,070)	–	(13,070)
Transactions with owners, recorded directly in equity:						
Issue of shares	22	5,264	92,714	–	255	98,233
At 31 December 2015		5,264	92,714	(13,070)	255	85,163
Total comprehensive loss for the year		**–**	**–**	**(7,998)**	**–**	**(7,998)**
Transactions with owners, recorded directly in equity:						
Dividends paid	**12**	**–**	**–**	**(951)**	**–**	**(951)**
Issue of shares	**22**	**10,588**	**162,281**	**–**	**–**	**172,869**
At 31 December 2016		**15,852**	**254,995**	**(22,019)**	**255**	**249,083**

Consolidated statement of cash flows

for the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £'000**	Period from incorporation to 31 December 2015 £'000
Net cash used in operating activities	25	**(23,541)**	(9,532)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,327)**	(341)
Proceeds from sale of property, plant and equipment		**813**	–
Acquisition of subsidiary	24	**(230,784)**	(81,111)
Net cash used in investing activities		**(234,298)**	(81,452)
Cash flows from financing activities			
Finance (cost)/income		**(3,484)**	70
Debt raising		**87,300**	–
Dividends paid		**(951)**	–
Proceeds from issue of share capital		**172,869**	98,234
Net cash from financing activities		**255,734**	98,304
Net (decrease)/increase in cash and cash equivalents		**(2,105)**	7,320
Cash and cash equivalents at beginning of year		**7,320**	–
Cash and cash equivalents at end of year	19	**5,215**	7,320

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Company statement of financial position

for the year ended 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**193**	55
Investments	16	**212,223**	–
		212,416	55
Current assets			
Trade and other receivables	18	**62,089**	96,710
Cash and cash equivalents	19	**378**	4,965
		62,467	101,675
Total assets		**274,883**	101,730
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	20	**1,595**	11,121
Total liabilities		**1,595**	11,121
Equity attributable to the owners			
Share capital	22	**15,852**	5,264
Share premium	23	**254,995**	92,714
Retained profit/(loss)		**2,441**	(7,369)
Total equity		**273,288**	90,609
Total equity and liabilities		**274,883**	101,730

The retained profit for the financial year reported in the financial statements for the Company was £10,761,000 (2015: loss of £7,369,000).

These financial statements were approved by the Board of Directors on 31 March 2017.

Signed on behalf of the Board of Directors.

John van Kuffeler
Group Chief Executive

Nick Teunon
Chief Financial Officer

Company number – 09122252

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Company statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital £'000	Share premium £'000	Retained profit/(loss) £'000	Total £'000
At incorporation		–	–	–	–
Total comprehensive loss for the period		–	–	(7,369)	(7,369)
Transactions with owners, recorded directly in equity:					
Issue of shares	22	5,264	92,714	–	97,978
At 31 December 2015		5,264	92,714	(7,369)	90,609
Total comprehensive income for the year		**–**	**–**	**10,761**	**10,761**
Transactions with owners, recorded directly in equity:		**–**	**–**		
Dividends paid	**12**			**(951)**	**(951)**
Issue of shares	**22**	**10,588**	**162,281**	**–**	**172,869**
At 31 December 2016		**15,852**	**254,995**	**2,441**	**273,288**

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own statement of comprehensive income.

Company statement of cash flows

for the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £'000**	Period from incorporation to 31 December 2015 £'000
Net cash used in operating activities	25	**(16,492)**	(93,805)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(177)**	(64)
Acquisition of subsidiary		**(173,951)**	–
Net cash used in investing activities		**(174,128)**	(64)
Cash flows from financing activities			
Finance income		**615**	856
Dividend income		**12,549**	–
Proceeds from issue of share capital		**172,869**	97,978
Net cash from financing activities		**186,033**	98,834
Net (decrease)/increase in cash and cash equivalents		**(4,587)**	4,965
Cash and cash equivalents at beginning of year		**4,965**	–
Cash and cash equivalents at end of year	19	**378**	4,965

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Notes to the financial statements

for the year ended 31 December 2016

General information

Non-Standard Finance plc is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office is 5th Floor, 6 St Andrew Street, London EC4A 3AE.

1. Accounting policies

Basis of preparation

The consolidated and Company financial statements have been prepared in accordance with IFRS as adopted by the European Union and, as regards the parent company financial statements, applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 31 December. Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration the existence and effect of potential voting rights that currently are exercisable or convertible.

The results of subsidiaries acquired during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions and balances and any unrealised gains and losses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 from publishing its individual statement of comprehensive income and related notes.

Going concern

In adopting the going concern assumption in preparing the financial statements, the Directors have considered the activities of its principal subsidiaries, as set out in the Strategic report, as well as the Group's principal risks and uncertainties as set out in the Corporate governance report. The Board of Directors has considered the Group's latest financial projection from the most recent budget, including:

- funding levels and headroom against committed borrowing facilities;
- cash flow and liquidity requirements; and
- forecast compliance against banking covenants.

Based on these forecasts and projections, the Board is satisfied that the Group has adequate resources to continue to operate for the foreseeable future. For this reason, the Group has adopted the going concern basis in preparing the financial statements.

Changes in accounting policies and disclosures

New and amended Standards and Interpretations issued but not effective for the financial year ending 31 December 2016

At the date of authorisation of these financial statements, the following new and amended Standards and Interpretations are in issue but not yet mandatorily effective and are expected to have a material effect on the financial statements of the Group when they are adopted:

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces IAS 39 'Financial Instruments: Recognition and measurement'. The standard primarily impacts the classification and measurement of financial assets and liabilities and introduces the 'expected loss' model for the measurement of the impairment of financial assets so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The Group is currently assessing the impact of IFRS 9 on the loan book and associated level of provisioning. It is expected that the adoption of IFRS 9 will increase the level of provisioning. The Group will adopt the standard in line with the mandatory effective date of 1 January 2018, subject to endorsement by the EU.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and provides a single lease accounting model for the identification and treatment of lease arrangements in the financial statements of both lessees and lessors. The standard distinguishes between services and leases on the basis of whether there is the right to control the use of an identified asset for a period of time. The standard requires that upon commencement of a lease a lessee recognises a lease liability, being present value of the lease payments, and a right-of-use asset which is measured at the amount of the lease liability plus any initial direct costs incurred. The Group is in the process of assessing the impact of the standard and will adopt it from the expected effective date of 1 January 2019, subject to endorsement by the EU.

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material. Management will continue to assess the impact of new and amended Standards and Interpretations on an ongoing basis.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is allocated to cash-generating units ('CGUs') for the purposes of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant CGU. Expected future cash flows are derived from the Group's latest budget projections and the discount rate based on the Group's Weighted Average Cost of Capital ('WACC') at the balance sheet date.

Revenue recognition
Interest income is recognised in the statement of comprehensive income for all loans and receivables measured at amortised cost using the effective interest rate method ('EIR'). The EIR is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not at all. Under IAS 39 interest income on loan products continues to accrue at the EIR on all impaired capital balances throughout the life of the agreement irrespective of the terms of the loan and whether the customer is actually being charged arrears interest. This is referred to as the gross up adjustment to revenue and is offset by a corresponding gross up adjustment to the loan loss provisioning charge to reflect the fact that this additional revenue is not collectable.

Fair value of acquired loan book
The fair value of the acquired loan portfolio of Loans at Home and Everyday Loans on acquisition has been estimated by discounting expected future cash flows at a rate of 20%. The WACC used by the Group for Loans at Home was 15% at acquisition and for Everyday Loans (including Trusttwo) was 10% at acquisition which included an additional market risk premium for the specific loan assets. The difference between fair value and carrying value of the loan portfolio on acquisition will be unwound to revenue in the statement of comprehensive income on an effective interest rate basis over the expected life of the acquired loans. The Board of Directors will assess the fair value adjustment, using the same assumptions, the remaining cash flows from the loans that were in place at the time of acquisition, at each future accounting date.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker as required by IFRS 8 'Operating Segments'. The chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors.

The accounting policies of the reportable segments are consistent with the accounting policies of the Group as a whole. Segment profit represents the profit earned by each segment. This is the measure of profit that is reported to the Board of Directors for the purpose of resource allocation and the assessment of segment performance.

When assessing segment performance and considering the allocation of resources, the Board of Directors reviews information about segment assets and liabilities. For this purpose, all assets and liabilities are allocated to reportable segments with the exception of intangible assets and current and deferred tax assets and liabilities.

Exceptional items
Exceptional items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results. The Group's exceptional items are costs associated with the acquisitions.

Taxation
The tax expense represents the sum of the tax currently payable and any deferred tax.

The current tax charge is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Financial statements

Notes to the financial statements continued

for the year ended 31 December 2016

1. Accounting policies continued

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to comprehensive income, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle on a net basis.

Intangible assets

Intangible assets include intangibles in respect of the customer list and agent relationships at Loans at Home (formerly Loansathome4u) and acquisition intangibles in respect of the customer list, broker relationships and credit decisioning technology at Everyday Loans together with the Everyday Loans and Trusttwo brands.

The fair value of the customer list of Loans at Home and Everyday Loans on acquisition has been estimated by calculating the Net Present Value ('NPV') of the discounted cash flows from each new re-loan provided to this, discrete set of known customers. The Board of Directors will re-calculate the NPV at each future accounting date using the same assumptions, limited to the original known customer lists.

The fair value of Loans at Home's agent relationships on acquisition has been estimated by valuing the cost to set up a similar network of trained agents.

The fair value of Everyday Loans' broker relationships on acquisition has been estimated by calculating the NPV of the discounted cash flows from the cost avoided each year due to having the broker relationships in place on new loan volumes written by existing brokers. The Board of Directors will re-calculate the NPV at each future accounting date using the same assumptions, limited to the then existing brokers.

The fair value of Everyday Loans' credit decisioning technology on acquisition has been estimated by assessing the likely commercial level of royalties that would be payable to a third party were the technology licensed rather than owned, calculated as a percentage of forecast revenues and discounted to the date of the transaction. The Board of Directors will assess the technology for impairment using the same methodology at each future accounting date.

The fair value of Loans at Home's brand (which at acquisition was Loansathome4u), Everyday Loans and Trusttwo's brands on acquisition has been estimated by assessing the likely commercial level of royalties that would be payable to a third party were the brand licensed rather than owned, calculated as a percentage of forecast revenues and discounted to the date of the transaction. Due to rebranding, the Loansathome4u brand to Loans at Home, the intangible asset was written off during the year. The Board of Directors will assess the brands for impairment using the same methodology at each future accounting date.

Amortisation is charged to the statement of comprehensive income, unless otherwise agreed, over their estimated useful lives as follows:

Customer lists	Between 5 and 7 years
Agent network	20% reducing balance
Broker relationships	2 to 3 years
Credit decisioning technology	4 years
Brand	Between 1 and 5 years

The useful economic life and amortisation method of intangible assets are reviewed at least at each balance sheet date. Impairment of intangible assets is only reviewed where circumstances indicate that the carrying value of an asset may not be fully recoverable.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on the cost of valuation of property, plant and equipment in order to write such cost or valuation over the expected useful lives as follows;

Freehold buildings	2% straight line
Leasehold improvements	shorter of life of lease or 7 years
Computer and other equipment	20% to 33% straight line
Fixtures and fittings	10% straight line or 20% reducing balance
Motor vehicles	25% reducing balance
Software	3 to 5 years

Project costs relate to capitalised IT expenditure in relation to developing software. They are not depreciated. Freehold land is not depreciated.

Leases
Rental costs under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Inventories
Inventories are stated at the lower of cost and net realisable value.

Share based payments
The cost of share based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the statement of comprehensive income. The expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at the date of grant. The total expense of the grant is adjusted subsequently to reflect the expected quantity of shares or share options achieving the vesting period.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial instruments
Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets
Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the EIR method.

Amounts receivable from customers
Customer receivables originated by the Group are initially recognised at the amount loaned to the customer plus directly attributable costs. Subsequently, receivables are increased by revenue and reduced by cash collections and any deduction for impairment. The Directors assess on an ongoing basis whether there is objective evidence that customer receivables are impaired at each balance sheet date.

Recognition of incurred losses
An impairment loss is calculated by reference to arrears stages and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. The assumptions for estimating future cash flows are based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. All assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and the eventual losses.

For Loans at Home, objective evidence of impairment is based on the payment performance of loans in the previous 13 weeks as this is considered to be the most appropriate indicator of credit quality. Loans are deemed to be impaired when between two to four contractual weekly payments (depending on length of relationship with the customer) have been missed in the previous 13-week period.

For Everyday Loans, the criteria that the Company uses to determine that there is objective evidence of impairment loss include, but are not limited to, the following:
- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower; and
- initiation of bankruptcy proceedings.

Financial statements

Notes to the financial statements continued

for the year ended 31 December 2016

1. Accounting policies continued

Cash and cash equivalents comprise cash at bank

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the EIR method.

EIR method

The EIR method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year-end date and the reported amounts of revenues and expenses during the reporting period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimated are revised and in any future periods affected.

Critical accounting judgements:

Determination of Cash Generating Units ('CGUs')

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). The Board of Directors considers Everyday Loans and Loans at Home as two CGUs. No goodwill was attributable to Trusttwo upon acquisition of Everyday Loans and therefore Trusttwo is not considered a CGU.

Key sources of estimation uncertainty

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value less cost to sell of the CGUs to which goodwill has been allocated. The fair value calculation requires the Group to estimate the future cash flows expected to arise from the CGU and apply a suitable discount rate in order to calculate the present value.

The assessment of impairment of goodwill reflects a number of key estimates, each of which can have a material effect on the carrying value of the asset. These include:

- cash flow forecasts which have been extracted from the budget, which involves inherent uncertainty, particularly in respect of gross loan values, collections performance and the cost base of the business.
- estimates made on the disposal costs of the business.
- the Weighted Average Cost of Capital ('WACC') applied to determine the net present value ('NPV') of future cash flows.

The nature and inherent uncertainty relating to the above judgements and estimates means that the forecast cash flows may be materially different from actual cash flows. A material future reduction in forecast surplus cash flows would necessitate a full impairment review and the possibility of a material impairment charge in future years.

The Group has produced a three-year forecast to 31 December 2019 and applied three valuation approaches to establish the recoverable amount of the CGU. These were:

1. A price/total net asset value ('TNAV') multiple based on the return on TNAV of the business, with the multiple calculated by using a regression analysis for comparable speciality finance company valuations over the last two years.
2. A price/earnings multiple based on the forecast earnings growth of the business in the following two years, with the multiple calculated by using a regression analysis for comparable speciality finance company valuations over the last two years.
3. A ten-year average price/earnings multiple for comparable speciality finance companies.

Under IAS 36 we have compared the carrying value of goodwill to the recoverable amount which is the higher of value of use or fair value less costs to sell. The lowest of the valuations was used by the Group to compare with the CGU's carrying value. This has not resulted in any impairment of the carrying value at 31 December 2016 as the CGUs' recoverable amounts exceed their carrying values. Refer to note 13 for the sensitivities around the carrying value of the goodwill.

Amounts receivable from customers
The Group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable indication of payment performance. The Group makes assumptions to determine whether objective evidence indicates that there has been an adverse effect on expected future cash flows.

Once a loan is deemed to be impaired, judgement is required to determine the quantum and timing of cash flows that will be recovered, which are discounted to present value based on the EIR of the loan.

Customer accounts in Loans at Home are deemed to be impaired when two to four contractual weekly payments (depending on length of relationship with the customer) have been missed in the previous 13 weeks. In the weekly home credit business, receivables are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 13 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly.

Customer accounts in Everyday Loans are impaired with reference to arrears stages and are measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. The assumptions for estimating future cash flows are based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. All assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and the eventual losses.

Intangible assets – customer list
Loans at Home's and Everyday Loans' customer lists have been allocated a fair value on acquisition as the existing customer bases are an important influence on the future prospects of the business.

The customer lists have been valued by calculating the NPV of the discounted cash flows from each new loan sold to this discrete set of known customers. The methodology is in line with the Group's existing valuation model used for budgeting purposes.

The calculation of the customer lists reflects a number of key estimates, which have a material effect on the carrying value of the assets. These include:
- cash flow forecasts which have been extracted from the budget produced by Everyday Loans and Loans at Home, which involve inherent uncertainty, particularly in respect of gross loan values, collections performance and the cost base of the business;
- estimates made on the propensity to re-loan to the customer base; and
- the WACC applied to determine the NPV of each new re-loan.

The nature and inherent uncertainty relating to the above judgements and estimates mean that the forecast cash flows may be materially different from actual cash flows. A material future reduction in forecast surplus cash flows would necessitate a full impairment review and the possibility of a material impairment charge in future years.

3. Revenue

Revenue is recognised by applying the EIR to the carrying value of a loan. The EIR is calculated at inception and represents the rate which exactly discounts the future contractual cash receipts from a loan to the amount of cash advanced under the loan, plus directly attributable issue costs. In addition, the EIR takes account of customers repaying early.

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Interest income	**81,099**	14,657
Fair value unwind on acquired loan portfolio	**(8,342)**	(5,456)
Total revenue	**72,757**	9,201

4. Operating profit/(loss) for the period is stated after charging/(crediting)

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Depreciation of property, plant and equipment	**690**	198
Amortisation of intangible assets (note 14)	**10,714**	4,030
Staff costs (note 8)	**20,345**	5,076
Rentals under operating leases	**1,110**	136
(Profit)/loss on sale of property, plant and equipment	**(363)**	51
Rentals received under operating leases	**(28)**	(53)

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for the year ended 31 December 2016

5. Auditors' remuneration

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Audit services		
Fees payable to the Company's auditor for the audit of the Group annual financial statements	**70**	100
Fees payable to the Company's auditor and their associates for other services to the Group	**215**	110
Other services pursuant to legislation	**50**	25
	335	235
Other services		
Other services relating to taxation	**44**	27
Services relating to corporate finance transactions	**–**	1,705
Other services	**–**	26
	44	1,758

Details of the Group's policy on the use of the auditor for non-audit services are set out in the Audit committee report on page 48.

6. Segment information

Management has determined the operating segments by considering the financial and operational information that is reported internally to the chief operating decision-maker, the Board of Directors, by management. For management purposes, the Group is currently organised into four operating segments: Everyday Loans (branch-based lending), Loans at Home (home credit), Trusttwo (guarantor lending) and Central (head office activities). The Group's operations are all located in the United Kingdom and all revenue is attributable to customers in the United Kingdom.

	Everyday Loans £'000	Loans at Home £'000	Trusttwo[1] £'000	Central £'000	2016 Total £'000
Year ended 31 December 2016					
Interest income	37,080	42,170	1,849	–	**81,099**
Fair value unwind on acquired loan portfolio	(7,916)	(426)	–	–	**(8,342)**
Total revenue	29,164	41,744	1,849	–	**72,757**
Operating profit/(loss) before amortisation	6,848	1,431	460	(3,257)	**5,482**
Amortisation of intangible assets	–	–	–	(10,714)	**(10,714)**
Operating profit/(loss) before exceptional items	6,848	1,431	460	(13,971)	**(5,232)**
Exceptional items	–	–	–	(626)	**(626)**
Finance cost	(2,699)	(323)	(198)	(264)	**(3,484)**
Profit/(loss) before taxation	4,149	1,108	262	(14,861)	**(9,342)**
Taxation	(1,036)	27	(58)	2,411	**1,344**
Profit/(loss) for the year	3,113	1,135	204	(12,450)	**(7,998)**

	Everyday Loans £'000	Loans at Home £'000	Trusttwo[1] £'000	Central £'000	Consolidation adjustments[2] £'000	2016 Total £'000
Total assets	136,362	40,258	8,783	274,883	(108,964)	**351,322**
Total liabilities	(98,589)	(14,239)	–	(1,595)	12,184	**(102,239)**
Net assets	37,773	26,019	8,783	273,288	(96,780)	**249,083**
Capital expenditure	1,764	2,386	–	177	–	**4,327**
Depreciation of plant, property and equipment	226	425	–	39	–	**690**
Amortisation of intangible assets	–	–	–	10,714	–	**10,714**

1. Trusttwo is supported by the infrastructure of Everyday Loans and only the net loan book and profit and loss is reported to the Board separately and has therefore been disclosed above.
2. Consolidation adjustments include the acquisition intangibles of £17.4m (2015: £14.1m), goodwill of £132.1m (2015: £40.2m), deferred tax liability of £6.8m (2015: £3.1m), fair value of loan book of £15.8m (2015: £0.4m) and the elimination of intra-Group balances.

All inter-segment transactions are transacted on an arm's length basis. The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

	Everyday Loans £'000	Loans at Home £'000	Trusttwo £'000	Central £'000	2015 Total £'000
Period ended 31 December 2015					
Interest income	–	14,657	–	–	14,657
Fair value unwind on acquired loan portfolio	–	(5,456)	–	–	(5,456)
Total revenue	–	9,201	–	–	9,201
Operating loss before amortisation	–	(3,313)	–	(2,684)	(5,997)
Amortisation of intangible assets	–	–	–	(4,030)	(4,030)
Operating loss before exceptional items	–	(3,313)	–	(6,714)	(10,027)
Transaction costs	–	–	–	(5,542)	(5,542)
Redundancy costs	–	(593)	–	–	(593)
Finance cost	–	–	–	(3)	(3)
Finance income	–	–	–	73	73
Loss before taxation	–	(3,906)	–	(12,186)	(16,092)
Taxation	–	1,271	–	1,751	3,022
Loss for the period	–	(2,635)	–	(10,435)	(13,070)

	Everyday Loans £'000	Loans at Home £'000	Trusttwo £'000	Central £'000	Consolidation adjustments £'000	2015 Total £'000
Total assets	–	34,492	–	101,730	(34,199)	102,023
Total liabilities	–	(3,735)	–	(11,121)	(2,004)	(16,860)
Net assets	–	30,757	–	90,609	(36,203)	85,163
Capital expenditure	–	295	–	64	–	359
Depreciation of plant, property and equipment	–	189	–	9	–	198
Amortisation of intangible assets	–	–	–	4,030	–	4,030

7. Directors' remuneration

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Short-term employee benefits	**949**	1,152
Post-employment benefits	**70**	46

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year. Post-employment benefits represent contributions by the Group in respect of money purchase pension schemes.

8. Employee information

a) The average monthly number of employees (including Executive Directors and excluding Loans at Home's self-employed agents) employed by the Group was as follows:

	Year ended 31 December 2016 Number	Period from incorporation to 31 December 2015 Number
Everyday Loans staff	**217**	–
Loans at Home staff	**271**	296
Central staff	**9**	7
	497	303

b) Employment costs

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Wages and salaries	**17,824**	4,530
Social security costs	**1,866**	456
Pension costs	**597**	90
	20,287	5,076

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Notes to the financial statements continued

for the year ended 31 December 2016

9. Finance costs and finance income

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Bank charges and interest payable	**(3,541)**	(3)
Bank interest receivable	**57**	73
Finance (cost)/income	**(3,484)**	70

10. Loss per share

	Year ended 31 December 2016	Period from incorporation to 31 December 2015
Retained loss attributable to Ordinary Shareholders (£'000)	**(7,998)**	(13,070)
Weighted average number of Ordinary Shares at year/period ended 31 December	**307,315,588**	61,502,789
Basic and diluted loss per share (pence)	**(2.60p)**	(21.25p)

The loss per share was calculated on the basis of net loss attributable to Ordinary Shareholders divided by the weighted average number of Ordinary Shares. The basic and diluted loss per share is the same, as the exercise of share options would reduce the loss per share and is anti-dilutive.

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Weighted average number of potential Ordinary Shares that are not currently dilutive (note 22)	**5,539**	5,539

11. Taxation

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Current tax charge/(credit)		
In respect of the current year	**2,103**	(1,251)
Total current tax charge/(credit)	**2,103**	(1,251)
Deferred tax credit	**(3,447)**	(1,771)
Total tax credit	**(1,344)**	(3,022)

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Loss before taxation	**(9,342)**	(16,092)
Tax on loss on ordinary activities at standard rate of UK corporation tax of 20%:	**(1,868)**	(3,218)
Effects of:		
Fixed asset differences	**(103)**	–
Expenses not allowable for taxation	**132**	1,214
Chargeable gains/losses	**99**	–
Adjustment to tax charge in respect of previous periods	**72**	–
Adjustment to tax charge in respect of previous periods – deferred tax	**(80)**	–
Deferred tax rate change	**254**	–
Changes in unrecognised deferred tax	**151**	441
Capital allowances in excess of depreciation	**–**	1
Current tax rate change	**–**	(53)
Timing difference	**–**	(21)
Tax adjustments arising on date of acquisition	**–**	(1,386)
Total tax credit	**(1,344)**	(3,022)

Exceptional items are included within 'expenses not allowable for taxation' due the nature of the transactions, being in relation to the acquisitions of Loans at Home and Everyday Loans (including Trusttwo). At 31 December 2016 exceptional items totalled £626,000 (2015: £5,542,000).

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) were substantively enacted on 26 October 2015. A further reduction in the rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on the rate of 19% substantively enacted at the balance sheet date.

12. Dividends

The Directors have recommended a final dividend in respect of the year ended 31 December 2016 of 0.9 pence per share (30 June 2016: 0.3 pence and 2015: nil) which will amount to an estimated dividend payment of £2,853,000. This dividend is not reflected in the balance sheet as it is recommended to be paid after the balance sheet date.

13. Goodwill

	£'000
Cost and net book amount	
At incorporation	–
Acquisition of subsidiary (Loans at Home)	40,176
At 31 December 2015	40,176
Acquisition of subsidiary (Everyday Loans)	91,894
At 31 December 2016	**132,070**

The goodwill recognised represents the difference between the purchase consideration and the net assets acquired (including intangible assets recognised upon acquisition).

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The assessment of impairment of goodwill reflects a number of key estimates, each of which can have a material effect on the carrying value of the asset. These include:

- cash flow forecasts which have been extracted from the budget, which involves inherent uncertainty, particularly in respect of gross loan values, collections performance and the cost base of the business;
- the price earnings multiple applied to the cash flow forecasts;
- estimates made on the disposal costs of the business; and
- the WACC applied to determine the NPV of future cash flows.

The recoverable amount has been determined based on a fair value less cost to sell calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three year period to 31 December 2019, disposal costs have been estimated at 2% and a discount rate (WACC) of 12% used for the Group. The Directors have estimated the discount rate using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the market. None of the goodwill is tax deductible.

Loans at Home goodwill impairment assessment: Considering the key estimates above, the Group has identified that the following movements may necessitate an impairment charge to the carrying value of goodwill:

- a 3% reduction in forecast 2019 earnings;
- a 3% reduction in the price earnings multiple;
- an increase in the disposal costs to 5.5%; and/or
- an increase in the WACC to 14%.

Everyday Loans goodwill impairment assessment: It would require a movement of greater than 20% in all of the judgements and estimates to give rise to a potential impairment charge to the carrying value of goodwill recognised on the Everyday Loans acquisition.

At 31 December 2016 the fair value less cost to sell of the goodwill was in excess of its carrying amount by £36.1m at Everyday Loans (2015: n/a) and £2.3m at Loans at Home (2015: £51.2m) when applying the lowest valuation as specified in the accounting policies.

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14. Intangible assets – Group

	Customer list £'000	Agent network £'000	Brand £'000	Broker relationship £'000	Technology £'000	Total £'000
Cost						
At 1 January 2016	17,312	540	297	–	–	18,149
Additions through acquisition	2,050	–	1,497	4,233	6,227	14,007
At 31 December 2016	**19,362**	**540**	**1,794**	**4,233**	**6,227**	**32,156**
Amortisation						
At 1 January 2016	3,869	99	62	–	–	4,030
Charge for the year	7,856	257	435	1,129	1,038	10,714
At 31 December 2016	**11,725**	**356**	**497**	**1,129**	**1,038**	**14,744**
Net book value						
At 31 December 2016	**7,637**	**184**	**1,297**	**3,104**	**5,189**	**17,412**
At 31 December 2015	13,443	441	235	–	–	14,119

15. Property, plant and equipment – Group

	Freehold land and buildings £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Project costs £'000	Software £'000	Total £'000
Cost								
At 1 January 2016	194	–	409	1,313	–	–	–	1,916
Additions through acquisition	–	1,468	258	–	715	–	2,116	4,557
Additions	–	383	387	110	1,346	1,797	303	4,326
Disposals	(94)	(3)	–	(237)	(150)	–	(259)	(743)
At 31 December 2016	**100**	**1,848**	**1,054**	**1,186**	**1,911**	**1,797**	**2,160**	**10,056**
Depreciation								
At 1 January 2016	2	–	51	145	–	–	–	198
Charge for the year	5	1,273	251	280	800	–	2,085	4,694
Disposals	–	(2)	–	–	(50)	–	(243)	(295)
At 31 December 2016	**7**	**1,270**	**302**	**425**	**751**	**–**	**1,842**	**4,597**
Net book value								
At 31 December 2016	**93**	**578**	**752**	**761**	**1,161**	**1,797**	**318**	**5,459**
At 31 December 2015	192	–	358	1,168	–	–	–	1,718

Property, plant and equipment – Company

	Leasehold improvements £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2016	–	9	55	64
Additions	110	67	–	177
At 31 December 2016	**110**	**76**	**55**	**241**
Depreciation				
At 1 January 2016	–	–	9	9
Charge for the year	15	11	13	39
At 31 December 2016	**15**	**11**	**22**	**48**
Net book value				
At 31 December 2016	**95**	**65**	**33**	**193**
At 31 December 2015	–	9	46	55

16. Investment in subsidiaries

Details of the Group's subsidiaries, which are all included in the consolidated financial statements of the Group, are as follows:

Name of company	Principal place of business and country of incorporation	Nature of business	% voting rights and shares held
SD Taylor Limited (trading as Loans at Home)	Royal House, Princes Gate, Homer Road, Solihull, West Midlands, England, B91 3QQ, United Kingdom	Provision of consumer credit	100% of Ordinary Shares
Everyday Loans Holdings Limited	Secure Trust House, Boston Drive, Bourne End, Buckinghamshire, SL8 5YS, United Kingdom	Holding company	100% of Ordinary Shares
Everyday Loans Limited	As above	Provision and servicing of secured and unsecured personal instalment loans	100% of Ordinary Shares
Everyday Lending Limited	As above	Provision of unsecured personal instalment loans	100% of Ordinary Shares
Non-Standard Finance Subsidiary Limited	5th Floor, 6 St Andrew Street, London, EC4A 3AE, United Kingdom	Dormant	100% of Ordinary Shares
Non-Standard Finance Subsidiary II Limited	As above	Holding company	100% of Ordinary Shares
Non-Standard Finance Subsidiary III Limited	As above	Holding company	100% of Ordinary Shares

17. Inventories – Group

	As at 31 December 2016 £'000	As at 31 December 2015 £'000
Finished goods	**–**	3

18. Amounts receivable from customers – Group

	2016 £'000	2015 £'000
Credit receivables	**204,775**	30,335
Loan loss provision	**(24,362)**	(1,923)
Amounts receivable from customers	**180,413**	28,412

The movement on the loan loss provision for the period relates to the provision at Loans at Home for the year and Everyday Loans since the date of acquisition. The amounts receivable from customers were recognised at fair value (net loan book value) at the date of acquisition (see note 24 for detail).

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18. Amounts receivable from customers – Group continued

Analysis of overdue receivables from customers

	2016 £'000	2015 £'000
Not past due or impaired	**152,464**	13,538
Past due but not impaired	**21,599**	7,819
Impaired	**6,350**	7,055
	180,413	28,412

	2016 £'000	2015 £'000
Loans at Home[1] past due not impaired:		
One week overdue	**6,278**	4,571
Two weeks overdue	**2,129**	1,696
Three or four weeks overdue	**1,879**	1,552
	10,286	7,819

1. Loans at Home makes weekly collections.

	2016 £'000	2015 £'000
Everyday Loans[2] past due not impaired:		
Up to one month overdue	**11,313**	–
	11,313	–

2. Everyday Loans makes monthly collections. There is no comparable information for Everyday Loans as it was acquired on 13 April 2016.

Analysis on movement on loan loss provision

	£'000
At incorporation	–
Charge for the period	3,896
Unwind of discount	(1,973)
At 31 December 2015	1,923
Charge for the year	24,928
Unwind of discount	(2,489)
At 31 December 2016	**24,362**

The average EIR used during the year ended 31 December 2016 for Loans at Home was 316% (2015: 328%) and for Everyday Loans was 45.0% (2015: n/a).

Financial instruments

The table below sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39 as at 31 December 2016. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Group

At 31 December	Loans and receivables £000	Amortised cost £000	Non-financial assets/ liabilities £000	2016 Total £000	2015 Total £000
Assets					
Cash and cash equivalents	5,215	–	–	**5,215**	7,320
Loans and advances to customers	180,413	–	–	**180,413**	28,412
Other assets	–	–	9,709	**9,709**	10,278
Total assets	185,625	–	10,753	**195,337**	46,010
Liabilities					
Bank borrowing	–	(87,300)	–	**(87,300)**	–
Current tax liability	–	–	(1,292)	**(1,292)**	–
Deferred tax liability	–	–	(5,890)	**(5,890)**	(3,057)
Other liabilities	–	–	(6,713)	**(6,713)**	(13,803)
Total liabilities	–	(87,300)	(13,895)	**(101,195)**	(16,860)

Financial instruments continued

Company

At 31 December	Loans and receivables £000	Amortised cost £000	Non-financial assets/liabilities £000	**2016 Total £000**	2015 Total £000
Assets					
Cash and cash equivalents	378	–	–	**378**	4,965
Other assets	–	–	62,089	**62,089**	96,710
Total assets	378	–	62,089	**62,467**	101,675
Liabilities					
Other liabilities	–	–	(1,595)	**(1,595)**	(11,121)
Total liabilities	–	–	(1,595)	**(1,595)**	(11,121)

Trade and other receivables – Group

	2016 £'000	2015 £'000
Other debtors	**211**	8,176
Corporation tax	**–**	1,600
Prepayments	**9,498**	499
	9,709	10,275

Trade and other receivables – Company

	2016 £'000	2015 £'000
Other debtors	**686**	8,176
Amounts due from subsidiaries	**61,135**	88,493
Prepayments	**268**	41
	62,089	96,710

Included within other debtors at 31 December 2015 was £8,162,000 of listing and debt expenses relating to the acquisition of Everyday Loans. Following the equity raise in January 2016, the listing expenses have been expensed to the share premium account and the debt raising expenses were recognised against the debt raised.

There are no amounts included in trade and other receivables which are past due but not impaired.

19. Cash and cash equivalents – Group

	2016 £'000	2015 £'000
Cash at bank and in hand	**5,215**	7,320

Cash and cash equivalents – Company

	2016 £'000	2015 £'000
Cash at bank and in hand	**378**	4,965

The Directors consider that the carrying amount of these assets is a reasonable approximation of their fair value. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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20. Trade and other payables – Group

	2016 £'000	2015 £'000
Trade creditors	**917**	4,180
Other creditors	**1,436**	7,407
Accruals and deferred income	**5,652**	2,216
	8,005	13,803

Trade and other payables – Company

	2016 £'000	2015 £'000
Trade creditors	**18**	3,875
Other creditors	**75**	6,238
Amounts due to subsidiaries	**1,255**	255
Accruals and deferred income	**247**	753
	1,595	11,121

Included within other creditors at 31 December 2015 was £6,194,000 of listing and debt raising expenses relating to the acquisition of Everyday Loans. Listing expenses were paid in January 2016 when the equity was raised and debt raising expenses were paid upon completion of the acquisition of Everyday Loans.

The carrying value of trade and other payables is not materially different to the fair value.

Other payables due in more than one year – Group

	2016 £'000	2015 £'000
Bank loans due in more than one year	**87,300**	–
	87,300	–

The Group entered into two banking facility arrangements during the year, one for Loans at Home and one for the Everyday Loans group. As at 31 December 2016 the Everyday Loans' banking facility was £77.3m (2015: n/a) and Loans at Home's was £10.0m (2015: £nil). Both banking facilities have a three year term, the Everyday Loans' facility was extended post balance sheet and is due to expire in March 2020 and the Loans at Home facility in June 2019.

The carrying values other payables due in more than one year is not materially different to the fair value.

21. Deferred tax liability

	£'000
At incorporation	–
Recognition of intangible assets at acquisition	(4,828)
Current period credit	1,771
At 31 December 2015	(3,057)
Recognition of intangible assets at acquisition	(2,801)
Recognition of fair value adjustments on amounts receivable at acquisition	(4,750)
Adjustment for changes in deferred tax rate	685
Recognition of deferred tax asset at acquisition	586
Current year credit	3,447
At 31 December 2016	**(5,890)**

21. Deferred tax liability continued

The deferred tax liability was recognised on the intangible assets upon acquisition of Loans at Home and of Everyday Loans (refer to note 24). The intangible assets will be amortised in future periods for which tax deductions will not be available.

The deferred tax liability is attributable to temporary timing differences arising in respect of:

	2016 £'000	2015 £'000
Accelerated tax depreciation	**163**	(115)
Recognition of intangible assets	**(3,308)**	(2,909)
Recognition of fair value adjustments on amounts receivable at acquisition	**(3,008)**	–
Capital gains	**(20)**	–
Other short term timing differences	**258**	(10)
Other losses and deductions	**24**	–
Property revaluation	**–**	(23)
Net Deferred tax liability	**(5,890)**	(3,057)

For the year ended 31 December 2016 the Company has unused tax losses of £154,000 (2015: £1,822,000) available for offset against future profits. However, due to the uncertainty over the likelihood of future profits at the Company level, the deferred asset has not been recognised on the Company or consolidated statement of financial position.

22. Share capital and share premium

On incorporation, 8 July 2014, the issued share capital of the Company was £1 consisting of one Ordinary Share, fully paid up.

On 5 November 2014, the ordinary share of £1 was subdivided into 20 Ordinary Shares of £0.05 each.

On 2 December 2014, the share capital was increased by the issuance of 999,980 Ordinary Shares of £0.05 each at par to John van Kuffeler in settlement of a liability of £49,999.

On 4 February 2015 the share capital was further increased by the issuance of 1,960,527 Ordinary Shares of £0.05 each at a premium of £0.33 each to John van Kuffeler, Nick Teunon, Miles Cresswell-Turner, Robin Ashton and Charles Gregson.

On 19 February 2015, the share capital was further increased by the flotation of the Company and issuance of 102,323,918 Ordinary Shares of £0.05 each at a premium of £0.95 each.

On 7 January 2016, the share capital was increased by the issuance of 188,235,825 Ordinary Shares of £0.05 each at a premium of £0.80 each.

Upon completion of the acquisition of the Everyday Loans Group from Secure Trust Bank plc on 13 April 2016, the share capital was further increased by the issuance of 23,529,412 Ordinary Shares of £0.05 each at a premium of £0.80 each to Secure Trust Bank plc.

All shares in issue are ordinary 'A' shares consisting of £0.05 per share. All shares are fully paid up.

The Company's share capital is denominated in Sterling. The Ordinary Shares rank in full for all dividends or other distributions, made or paid on the ordinary share capital of the Company.

Share movements

	Number
Balance at date of incorporation	–
Shares issued during the period	105,284,445
Balance at 31 December 2015	105,284,445
Shares issued during the period	211,765,237
Balance at 31 December 2016	**317,049,682**

23. Reserves

Details of the movements in reserves are set out in the statement of changes in equity. A description of each reserve is set out below.

Share premium

The share premium account is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at a premium. Transaction costs of £7,131,000 (2015: £5,140,000) directly relating to raising finance have been deducted from share premium in the year.

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	Total £'000
Balance at date of incorporation	–
Premium arising on issue of Ordinary Shares	97,854
Issue costs	(5,140)
Balance at 31 December 2015	92,714
Premium arising on issue of Ordinary Shares	169,412
Issue costs	(7,131)
Balance at 31 December 2016	**254,995**

24. Acquisition of subsidiary

Everyday Loans

On 13 April 2016, the Group obtained control of the Everyday Loans Holdings Limited group, which consists of Everyday Loans Holdings Limited, Everyday Loans Limited and Everyday Lending Limited. The Group obtained control through the purchase of 100% of the share capital. The Everyday Loans group acquisition satisfies two of Non-Standard Finance plc's target sectors, branch-based unsecured lending and guaranteed loans (Trusttwo).

The fair values of the identifiable assets and liabilities of Everyday Loans as at the acquisition date were as follows:

	Amounts recognised at acquisition date £'000	Fair value adjustments £'000	Total £'000
Intangible assets[1]	–	14,006	14,006
Property plant and equipment	563	–	563
Amounts receivable from customers[2]	115,563	23,749	139,312
Trade receivables	4,259	–	4,259
Cash and cash equivalents	1,807	–	1,807
Trade and other payables	(7,342)	–	(7,342)
Corporation tax liability	(1,949)	–	(1,949)
Deferred tax liabilities[3]	–	(7,551)	(7,551)
	112,901	**30,204**	**143,105**
Goodwill			**91,895**
Total consideration			**235,000**
Satisfied by:			
Cash and shares			235,000
Net cash outflow arising on acquisition:			
Cash consideration			215,000
Share consideration			20,000
Cash and cash equivalents acquired			(1,807)
Corporation tax credit			(1,864)
Other acquired asset			(545)
			230,784

1. £2,050,000 has been attributed to the fair value of Everyday Loans' customer list; £4,233,000 to the broker relationships; £1,447,000 to the Everyday Loans brand and £49,000 to the Trusttwo brand; and £6,227,000 to technology (refer to note 14).
2. An adjustment to receivables of £23,749,000 has been made to reflect the fair value of the receivables book at the acquisition date (refer to note 18).
3. Deferred tax liability £7,551,000 recognised on the intangibles and the fair value adjustment of the receivable book at acquisition (refer to note 21).

Everyday Loans (including Trusttwo) contributed £38,929,000 to the Group's revenue and £12,327,000 profit before tax (before fair value adjustments) to the Group's operating profit for the period from the date of acquisition to the year ended 31 December 2016.

The goodwill of £91.9m represents the benefit of the Group's synergies available from the acquisition in respect of collections and distribution channels.

24. Acquisition of subsidiary continued

Loans at Home

On 4 August 2015, the Group obtained control of SD Taylor Limited, trading as Loans at Home (formerly Loansathome4u) through the purchase of 100% of the share capital.

A detailed conversion of Loans at Home's financial statements, to align accounting policies, has been completed post-acquisition which reduced Loans at Home's net assets on acquisition by £5,956,000, principally in respect of higher impairment provisions due to the impact of a more conservative approach to recognising impairment.

The fair values of the identifiable assets and liabilities of Loans at Home as at the acquisition date were as follows:

	Amounts recognised at acquisition date £'000	Fair value adjustments £'000	Total £'000
Intangible assets[1]	–	18,149	18,149
Property, plant and equipment	1,627	–	1,627
Inventories	9	–	9
Amounts receivable from customers[2]	22,591	5,882	28,473
Trade receivables	277	–	277
Cash and cash equivalents	1,296	–	1,296
Trade and other payables[3]	(2,040)	(732)	(2,772)
Deferred tax liabilities[4]	(22)	(4,806)	(4,828)
	23,738	**18,493**	**42,231**
Goodwill			**40,176**
Total consideration			**82,407**
Satisfied by:			
Cash			82,407
Net cash outflow arising on acquisition:			
Cash consideration			82,407
Cash and cash equivalents acquired			(1,296)
			81,111

1. £17,312,000 has been attributed to the fair value of Loans at Home's customer list, £540,000 to the agent network and £297,000 to the brand (refer to note 14).
2. An adjustment to receivables of £5,882,000 has been made to reflect the fair value of the receivables book at the acquisition date (refer to note 18).
3. An adjustment of £732,000 to accruals for a recognised dilapidations provision on the properties owned by Loans at Home.
4. Deferred tax liability £4,806,000 recognised on the intangibles and the fair value adjustment of the receivable book at acquisition (refer to note 21).

The goodwill of £40.2m represents the benefit of the Group's synergies available from the acquisition in respect of collections and distribution channels.

The fair value measurement of acquired assets is based upon financial forecasts, which are categorised as level 3 within the IFRS 13 fair value hierarchy.

25. Net cash used in operating activities – Group

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Operating loss	**(5,858)**	(16,162)
Taxation paid	**(1,341)**	(350)
Depreciation	**690**	198
Amortisation of intangible assets	**10,714**	4,030
Fair value unwind on acquired loan book	**8,342**	5,456
(Profit)/loss on disposal of property, plant and equipment	**(363)**	51
Decrease in inventories	**3**	6
Increase in amounts receivable from customers	**(21,039)**	(5,394)
Increase in receivables	**(7,737)**	(15,217)
(Decrease)/increase in payables	**(6,952)**	17,850
Cash used in operating activities	**(23,541)**	(9,532)

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Net cash used in operating activities – Company

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Operating loss	**(3,883)**	(8,225)
Depreciation	**39**	9
Increase in receivables	**(3,123)**	(96,710)
(Decrease)/increase in payables	**(9,526)**	11,121
Cash used in operating activities	**(16,492)**	(93,805)

26. Operating lease commitments – Group

At 31 December 2016, the outstanding commitments under non-cancellable operating leases which fall due are as follows:

	Year ended 31 December 2016 £'000	Period from incorporation to 31 December 2015 £'000
Within one year	**1,158**	25
In the second to fifth years inclusive	**2,419**	517
After five years	**263**	–
	3,839	542

27. Related party transactions

There have been no related party transactions in the year ended 31 December 2016 (2015: nil).

28. Share based payments

Equity settled share option scheme

The Founders have committed £255,000 of capital in NSF Subsidiary Limited in the form of 100 Founder Shares. The Founder Shares grant each holder the option, subject to the satisfaction of both the significant acquisition condition and the performance condition (which can be satisfied, under certain circumstances, if a Founder is removed from the Board), to require the Company to purchase some or all of their Founder Shares.

The conditions which must be met in order for the participants to receive any future pay-out can be summarised as follows:

- the Company must achieve an admission to the London Stock Exchange;
- the Company must make an acquisition of at least £50 million within two years of the admission date;
- the Ordinary Shares must achieve an internal rate of return of 8.5% per annum from the market capitalisation at the admission date; and
- the Company's market capitalisation must increase by 25% from the market capitalisation at the admission date.

The last two conditions must both be met for a period of 20 out of 30 consecutive days, during the same 30-day period within five years of an acquisition.

The purchase price for the exercise of this option may be paid by the Company in Ordinary Shares or as a cash equivalent at the Company's option. The number of Ordinary Shares required to settle all such options is the number of shares that would have represented 5% of the Ordinary Shares of the Company on (or immediately after) listing if such Ordinary Shares had been issued at the time of listing. The equivalent cash value is calculated on exercise of the option as the estimated total price of the Ordinary Shares that would have been issued if the option had been settled in Ordinary Shares rather than cash, based on the mean of the closing middle market quotations for an Ordinary Share on the London Stock Exchange over the 30 business days prior to the exercise of the option.

The fair value of the share options was assessed to be £255,000 and therefore the Company recognised total expenses of £nil relating to this share option scheme in the year ended 31 December 2016 (2015: £nil).

No shares were issue to the Directors during the year ended 31 December 2016. 40,750 shares were issued to two Directors during the period to 31 December 2015; these were issued on 19 February 2015 in lieu of cash for their first year's Director Fees. An expense of £40,750 was recognised in the period, reflecting the fair value of the services provided.

29. Financial instruments – Group

The Group's operations expose it to a variety of financial risks including credit risk, liquidity risk and interest rate risk. The Directors have delegated the responsibility of monitoring financial risk management to the Risk Committee.

The Group's objectives are to maintain a well-spread customer base of carefully controlled quality by applying strong emphasis on good credit management, both through strict lending criteria at the time of underwriting a new credit facility and continuously monitoring the collection process.

The average effective interest rate on financial assets of the Group at 31 December 2016 was estimated to be 99% (2015: 328%).

The average effective interest rate on financial liabilities of the Group at 31 December 2016 was estimated to be 4% (2015: 4%).

Market risk

Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The Group does not undertake position taking or trading books of this type and therefore market risk is not a concern.

Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates and therefore seeks to limit this exposure. This is, in the main, achieved by fixed interest rates on committed debt facilities.

A 2% movement in the interest rate applied to cash balances during 2016 would not have had a material impact on the Group's result for the year.

Credit risk

The Group's credit risk inherent in amounts receivable from customers is reviewed under impairment as per note 18. This risk is minimised by the use of credit scoring techniques which are designed to ensure the Group lends only to those customers who we believe can afford the repayments. It should be noted that the credit risk at the individual customer level is managed by strict adherence to credit control rules which are regularly reviewed. No individual customer contributed more than 10% of the revenue for the Group. Trade and other receivables and cash at bank are not considered to have a material credit risk as all material balances are due from highly rated banking counterparties.

Capital risk management

The Board of Directors assess the capital needs of the Group on an ongoing basis and approve all capital transactions. The Group's objective in respect of capital risk management is to maintain a conservative 'gearing ratio' level with respect to market conditions, whilst taking account of business growth opportunities in a capital efficient manner.

Liquidity risk

This is the risk that the Group has insufficient resources to fund its existing business and its future plans for growth. The short-term nature of the Group's business means that the majority of amounts receivable from customers is receivable within 24 months. The risk of not having sufficient liquidity resources is therefore low. The Group has in place sufficient committed debt facilities to cover this 24-month period. Further, the aim is to ensure that there is no over-reliance on a single or small group of lenders.

The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due.

30. Subsequent events

The committed debt facilities at 31 December 2016 totalled £95m. This has been extended to £115m of committed facilities since the year ended 31 December 2016.

Additional information

Additional information
Company information

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