Delivering great outcomes for customers, investors, employees, partners & communities

Non-Standard Finance plc Annual Report & Accounts 2018

nsfgroup

When lending direct, we aim to meet all our customers face-to-face. Whilst more expensive to operate than other models, it means we can lend when others can't (or won't).

P.18
Branch-based lending
We opened 12 new branches in 2018

P.20
Guarantor loans
We have over 25,000 customers

P.22
Home credit
We have a network of 897 agencies across the UK

Introducing our stakeholders

Key stakeholders	How they affect our ability to create value
Customers	We need access to a large pool of reliable, well-paying customers with the right characteristics and need for credit. Customers are the number one driver of value for the Group.
Employees and self-employed agents	Given the importance of building strong relationships with customers, having a well-trained, motivated and professional workforce is essential for long-term success.
Regulators	Each of our divisions is fully authorised by the FCA, a position we worked hard to achieve and one that we do not take for granted. Maintaining good relations with regulators ensures we can address issues before they become a potential concern.
Partners and suppliers	The scale and complexity of our business means that we utilise a number of products and services provided by a variety of other organisations including credit reference agencies, financial brokers and technology providers.
Providers of funding	The Group is funded with a balance of long-term and short-term capital. Access to additional capital is key for future loan book growth and associated investment.
Communities, charity and environment	With over 860 staff, almost 900 self-employed agencies and 130 office locations across the UK, we are acutely aware of the importance of our position in local communities that provide an invaluable source of customers, members of our workforce, partners and suppliers. As a responsible company we also look to support a discrete number of charities through both financial donations as well as by encouraging staff to donate their time to good causes. We are mindful of how our operations may affect the environment, even in a small way and so record emissions and resource usage to ensure these are properly controlled.

Serving over 180,000 customers through a network of over 130 locations, we are a leading player in the UK non-standard finance sector.

Operational highlights

- Conclusion of a period of significant investment and structural change
- Total loan book[2] grew by 29%
- Rate of impairment declined to 25.6% of normalised revenue[2]
- Branch-based lending: 12 new branches opened and over 90 new staff added
- Guarantor loans: all loans now being booked onto a single loan management platform
- Home credit: technology-driven efficiencies supporting a more streamlined operating structure
- Additional £70m of long-term funding secured in August 2018

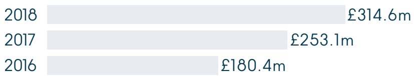
Financial highlights[1]

Reported results

Combined loan book

£314.6m

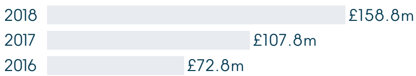
+24% (2017: £253.1m)



Revenue

£158.8m

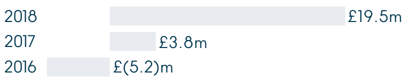
+47% (2017: £107.8m)



Operating profit

£19.5m

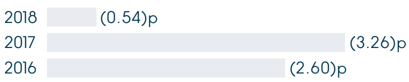
+413% (2017: £3.8m)



Basic and fully diluted loss per share

(0.54)p

+84% (2017: (3.26)p)



Dividend per share

2.60p

+18% (2017: 2.20p)

Normalised results[2]

Combined loan book

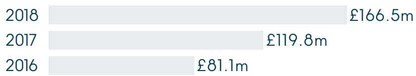
£310.3m

+29% (2017: £241.2m)

Revenue

£166.5m

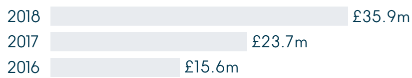
+39% (2017: £119.8m)



Operating profit

£35.9m

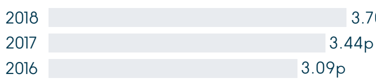
+51% (2017: £23.7m)



Basic and fully diluted earnings per share

3.70p

+8% (2017: 3.44p)



Dividend per share

2.60p

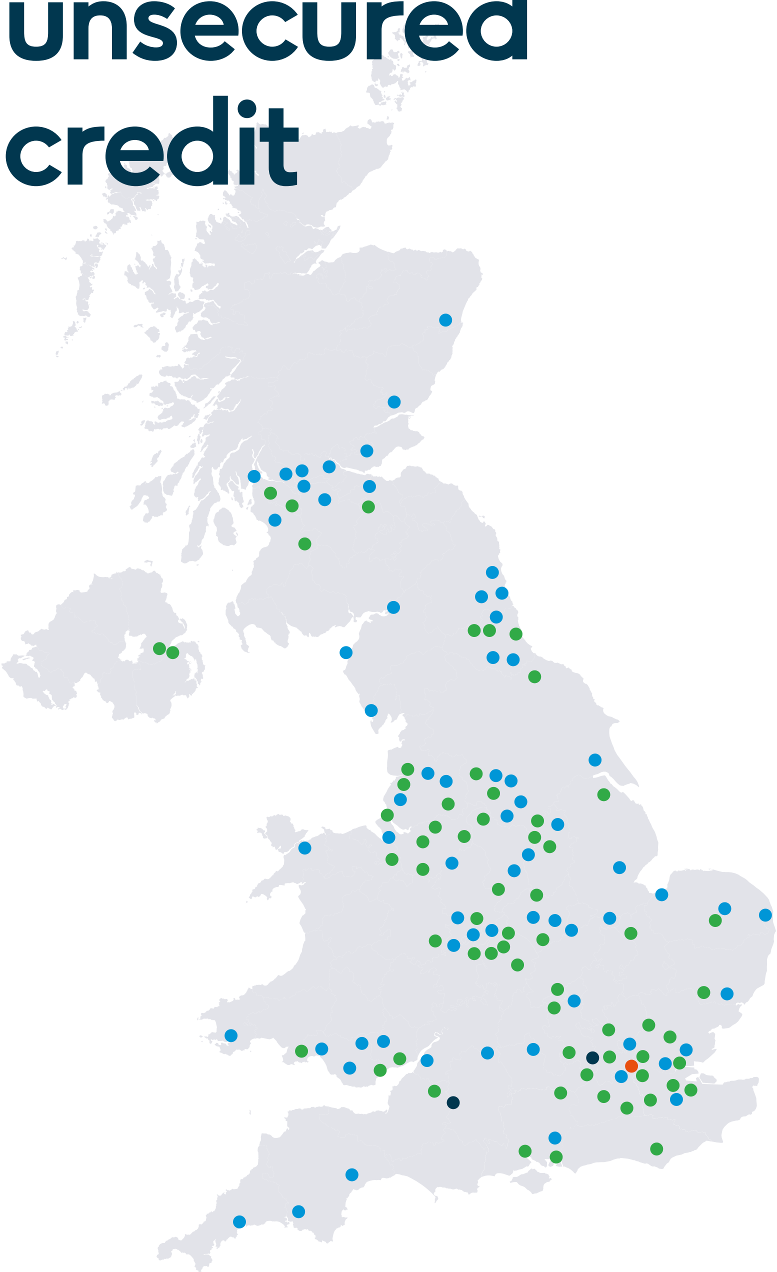
+18% (2017: 2.20p)

Visit our website for further information: www.nsfgroupplc.com.

1 The Group's net loan book and other key performance indicators for 2017 have been adjusted to reflect the position assuming IFRS 9 had been adopted on 1 January 2017 (2016 has not been adjusted and is reported under IAS 39). The 2017 financial statements have not been restated to reflect the adoption of IFRS 9 and so 2018 and 2017 financial results are not strictly comparable. For further information on the introduction of IFRS 9, see page 44. A reconciliation of the calculation of combined net loan book is set out on page 35.

2 Before fair value adjustments, amortisation of acquired intangibles and exceptional items. See glossary of alternative performance measures and key performance indicators in the Appendix. For a reconciliation of normalised results to reported results please see page 33.

A leading provider of unsecured credit



Formed in 2014, we now have national coverage with over 130 offices.

- NSF (1)
- Everyday Loans (65)
- Loans at Home (66)
- Guarantor loans (2)

£310.3m
Net loan book[1]

180,000+
Customers

130+
Locations

860+
Staff

890+
Self-employed agencies

£258.9m
Net debt[2]

1 Before fair value adjustments. A reconciliation of the calculation of combined net loan book is set out on page 35.
2 Gross borrowings less cash at bank.

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

Customer touch points

Unlike most of our competitors, when lending direct we aim to meet all our customers face-to-face. The quality of our customer relationships and how we manage them are key drivers of our long-term success.

Online

Our first point of contact is often online when a customer applies for a loan either direct or via a broker – here we capture their details and start the loan application process.

Face-to-face

In branch-based lending and home credit, meeting the customer face-to-face is an important part of our underwriting process.

By phone

Applicants also contact us by phone when we seek to confirm their details and start the loan application process.

Branch-based lending

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

Loan book[1]

£186.2m

+25% (2017: £149.4m)

→ See page 36

Guarantor loans

The Group is the clear number two provider in a fast-growing UK market

Loan book[1]

£83.1m

+61% (2017: £51.6m)

→ See page 39

Home credit

The UK's third largest provider of unsecured home credit

Loan book[1]

£41.0m

+2% (2017: £40.2m)

→ See page 42

1 The Group's net loan book (before fair value adjustments) and other key performance indicators for 2017 have been adjusted to reflect the position assuming IFRS 9 had been adopted on 1 January 2017. See glossary of alternative performance measures and key performance indicators in the Appendix. A reconciliation of the calculation of combined net loan book is set out on page 35.

A further year of good progress

Having completed a major period of investment and structural change, the Group made great strides in 2018 with a strong performance by each of our three business divisions.

The quality of our business improved and the overall rate of impairment declined while the Group's loan book grew strongly. At the same time, we increased our committed debt facilities to £330m.

2018 results
The Group's overall operating profit performance in 2018 was in line with our expectations, with particularly encouraging performances by both Everyday Loans and our Guarantor Loans Division whose respective market segments continue to grow strongly. Home credit also delivered a good performance in 2018 in what is a mature but profitable industry segment of the market.

Reported revenues were £158.8m (2017: £107.8m) and the Group produced an operating profit of £19.5m (2017: £3.8m). Higher interest costs and the impact of exceptional charges resulted in a loss per share of 0.54p (2017: statutory loss per share of 3.26p).

On a normalised basis[1], operating profit increased by 51% to £35.9m (2017: £23.7m) and profit before tax increased by 12% to £14.8m (2017: £13.2m). Earnings per share increased by 8% to 3.70p (2017: 3.44p) reflecting strong operating profit growth in all three divisions, the full-year impact of the acquisition of George Banco and the higher funding costs of the Group's new debt facilities.

Our strategy remains unchanged
We are dedicated to meeting the needs of those consumers who are either unable or unwilling to borrow from mainstream lenders. This is a significant segment of the overall market and is estimated to include c.10 million UK adults. Each of our three business divisions offers a significant opportunity to continue to create value through a combination of loan book growth and a high return on assets.

Our business strategy is founded on three pillars:

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

Each of these is explained in more detail on pages 24 to 29.

Offer to acquire Provident Financial plc
In keeping with the Group's strategy, on 22 February 2019 the Company announced a firm offer to acquire Provident Financial plc ('Provident') by way of a reverse takeover offer (the 'Offer') with each Provident shareholder entitled to receive 8.88 new NSF Shares for each Provident Share under the terms of the offer, as well as the proposed demerger of the Loans at Home Business (the 'Demerger').

NSF intends to capitalise on its operational and commercial success by acquiring and transforming Provident to unlock substantial value for all shareholders of, and stakeholders in, both Provident and NSF. The Offer, once complete is expected to create a well-balanced group with leading positions in some of the most attractive segments of the non-standard finance sector. NSF believes the transaction will reposition and revitalise Provident's businesses and their respective product offerings within the non-standard finance sector, enhancing their prospects for profitable growth. Under the leadership of the NSF Board and NSF's strong management team, the transaction also represents an opportunity to unlock substantial value from an enlarged customer base in a highly specialised sector.

Whilst Provident is one of the leading providers of personal credit products to the non-standard credit market in the UK, it has faced a number of challenges in the recent past. However, the NSF Board believes Provident continues to have significant potential which, under the right leadership and pursuing a revised business strategy, can be unlocked for the benefit of shareholders, employees and customers of both NSF and Provident.

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

❝ *We remain confident about the Group's full-year prospects and look forward with confidence*

Charles Gregson
Non-Executive Chairman

18%
Increase in total dividend per share

As part of the transaction, NSF intends to complete a demerger of its home credit business, Loans at Home, to assist with the Competition and Markets Authority ('CMA') competition approval process and for Loans at Home to be admitted to trading either on the Main Market (with a standard listing) or on AIM. Although the timing and structure of the Demerger remain subject to further consideration, including by the CMA, it is expected that the Demerger will take place following completion, thereby allowing Provident shareholders who participate in the transaction, as well as existing NSF shareholders, to receive shares in the newly listed Loans at Home. The NSF Board considers that Loans at Home is, and will continue to be, a viable, well-managed, independent, standalone business. As the Demerger remains subject to review by the CMA, NSF has reserved the right to change its strategic plans with respect to Loans at Home as described in the Offer announcement, including (without limitation) the timing of the Demerger.

As noted in notes 2 and 14 to the audited financial statements, the carrying value of goodwill generated on the acquisition of Loans at Home in 2015 was an area of particular focus for the 2018 audit and the Group has used current market multiples and budgeted 2019 profits to estimate the value of Loans at Home. This confirms that Loans at Home continues to exceed the carrying value of its tangible net assets and goodwill, albeit by a significantly smaller margin than at the end of 2017. As the market value of Loans at Home at the point of the expected Demerger will be a function of a broad range of factors at that time, the value of Loans at Home as a separately listed company may differ from that assessed at 31 December 2018 and that difference could result in a lower or higher value for Loans at Home at the point of Demerger. Any such movement which results in a lower value for Loans at Home is not, however, expected to outweigh the considerable benefit of the Offer for the Enlarged Group's shareholders or undermine the accuracy of the internal value calculation described above.

NSF has received irrevocable undertakings to accept the Offer and letters of intent to accept (or procure acceptance of) the Offer in respect of, in aggregate, 49.4% of Provident's issued share capital.

The Offer is subject to a number of conditions that include approval of the issuance of the New NSF Shares by NSF shareholders, receipt of approvals from the Financial Conduct Authority ('FCA'), the Prudential Regulatory Authority and the Central Bank of Ireland, receipt of approval from the CMA and other conditions and further terms.

Further details of the Offer can be found in the Offer document published by the Company on 9 March 2019 and which is available on the Group's website, www.nsfgroupplc.com.

Culture remains key

In last year's Annual Report, I set out our corporate values that were being embedded across the Group as part of our ongoing appraisal and reward framework. Through staff engagement surveys in all three of our business divisions we seek anonymous feedback on the degree to which our staff are engaged, how they are feeling and to ensure that our collective actions and behaviours are reflecting our desired goals and values. Increasing engagement is a key goal for us and we remain committed to putting the customer at the heart of everything we do. To add to our cultural toolkit, we are developing a 'good customer outcomes dashboard' that monitors a series of key performance indicators designed to highlight any areas of potential risk and plan to introduce this during 2019.

Whilst effective reporting and controls can help to mitigate operational risks from a poor or inappropriate business culture, we believe that there is no substitute for getting out of the boardroom to see our operations and meet staff in person. In addition to receiving regular updates from each of the operational management teams, I and my fellow Non-Executive Directors also made a number of site visits to the Group's operations during 2018, spending time with our staff, self-employed agents and listening to calls with customers. As well as providing a clear line of sight into how decisions taken at the parent company board are translated into operational outputs, these visits reaffirmed our view that the Group continues to have a strong culture, one that is fully-aligned with delivering great customer outcomes, providing attractive returns to our shareholders and managing carefully our other key stakeholder relationships. For further details on our approach to corporate and social responsibility, including stakeholder management, see pages 46 to 49.

Whilst The Financial Reporting Council's revised UK Corporate Governance Code applies only to companies with a premium listing, as a Board we are determined to adopt the highest standards of corporate governance and transparency. Therefore, whilst NSF is currently a standard listed company, during 2019 we will seek to comply with the revised Code, as and where it is practicable to do so and will report on this basis in 2020. On completion of the proposed acquisition of Provident, the Board has indicated its commitment to begin the process to transfer NSF's current listing from the standard listing to the premium listing segment of the Official List of the London Stock Exchange.

Regulation
Each of our businesses is fully authorised by the FCA and we remain an enthusiastic supporter of their efforts to ensure that consumers are protected from undue harm, that there is effective competition between operators and that the market operates effectively. Having taken on responsibility for what is now over 58,000 firms, the FCA has strengthened the regulatory framework as well as provided detailed research into the dynamics and structure of several important segments of the UK non-standard finance market.

Whilst all consumer credit firms were impacted to varying degrees by the FCA's thematic reviews, including those on staff incentives[1] and creditworthiness[2] many of the recommendations had already been addressed as part of the authorisation and ongoing supervision process and for NSF there was no material impact on any of our business divisions. Whilst the FCA's review of high-cost credit[3] resulted in some minor operational changes for home credit operators, none of these are significant for the Group.

We are now in the fifth year since the FCA assumed regulatory responsibility for consumer credit and there are many thousands of pages of FCA-related rules, regulations and guidance in existence. Whilst the Senior Managers and Certification Regime is due to come into force during the second half of 2019, we are well prepared for this and do not expect any other material changes to the regulatory framework during the coming year. For further details on key regulatory developments, please visit our website: www.nsfgroupplc.com.

Final dividend
Having declared a half-year dividend of 0.60p per share in August 2018, the Board is pleased to recommend a final dividend of 2.00p per share (2017: 1.70p), making a total of 2.60p for the year as a whole (2017: 2.20p). If approved at the Annual General Meeting ('AGM'), the final dividend would be paid to those shareholders on the Company's share register on 3 May 2019, with payment being made on 7 June 2019.

Current trading and outlook
2019 has started well with loan book growth in line with plan and impairment tightly controlled.

As evidenced by our recommended increase in the final dividend, we remain confident about the Group's full-year prospects and look forward with confidence.

Charles Gregson
Non-Executive Chairman
14 March 2019

1 FCA – FG18/2 Staff incentives, remuneration and performance management in consumer credit, March 2018.
2 FCA – PS18/19 Assessing creditworthiness in consumer credit – Feedback on CP17/27 and final rules and guidance, July 2018.
3 FCA – CP18/43 High-Cost Credit Review, Feedback on CP18/12 with final rules and guidance and consultation on Buy Now Pay Later offers, December 2018.

Our values

1 Doing the right thing

We recognise our collective responsibility for delivering great outcomes – not just for our customers but also our other stakeholders.

2 Integrity

We expect our people to respect colleagues and other key stakeholders and to do what we say we will do.

3 Shared purpose delivered through teamwork

We have clear strategic and operational goals and expect all of our people to understand and share in that vision.

4 Clear communication

We listen carefully to those dealing directly with our customers; we 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.

5 Entrepreneurial leadership

We lead by example, using our initiative and not just waiting to be told what to do; knowledgeable and inquisitive, we are prepared to try new things so we can perform better and be the best we can be.

Opportunities for growth

The business environment for non-standard finance in the UK remains positive.

1 There is strong demand

c.10 million consumers are either unwilling or unable to borrow from mainstream financial institutions[1]

Customers are low paid or on variable income	**18%** proportion of total jobs that are deemed to be low-paid[2]	**15%** of the UK workforce is self-employed[3]
Customers have low credit status/are credit impaired	**c.1m** County Court Judgments per annum[4]	**14m** people use an unarranged overdraft each year[5]

1 U.K. Specialist Lending Market Trends and Outlook 2018, Executive Insights Volume XX, Issue 39 – L.E.K. Consulting.
2 Low pay is defined as the value that is two-thirds of median hourly earnings. In 2018, median weekly earnings for full-time employees was £569 (2017: £550) and as a result 17.8% of all employee jobs are low-paid, when considered in terms of hourly earnings. This is the lowest proportion of low-paid employee jobs by hourly pay since the series began in 1997 – ONS: Annual Survey of Hours and Earnings, 25 October 2018.
3 The number of self-employed people in the UK in October 2018 was 4.77 million (14.7% of all people in work) – ONS UK Labour market, December 2018.
4 Registry Trust Limited – 12-month volume to September 2018 for England and Wales.
5 FCA – CP18/42 High-Cost Credit Review: Overdrafts consultation paper and policy statement, December 2018.

2 There is limited supply

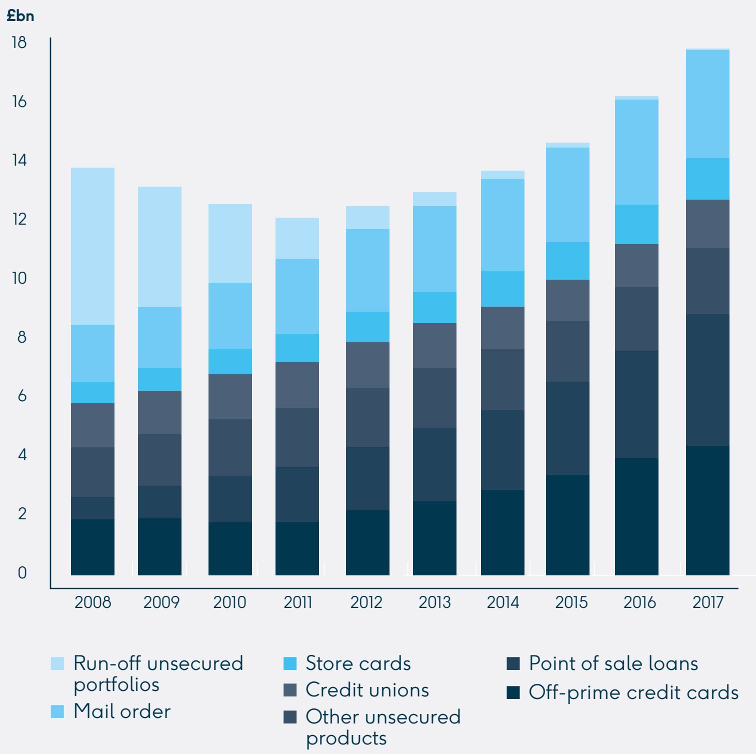
Strong growth in consumer credit in the UK in recent years has been driven by prime customers, not those with lower credit scores.[1] Whilst the market is highly fragmented, there is a limited number of well-capitalised providers to supply this large market.

Credit to non-standard customers was significantly reduced following the financial crisis due to a number of factors, including:

- withdrawal by many mainstream lenders from the market (see 'run-off unsecured portfolios' in chart);
- reduced supply of high-cost short-term credit ('HCSTC') and rent-to-own following FCA intervention;
- barriers to entry have increased including strict regulatory requirements and the need for a robust compliance infrastructure;
- lending to this segment is highly specialised and there is a limited pool of managerial talent; and
- many non-standard lenders struggle to access long-term, low-cost funding to support future growth.

1 www.fca.org.uk/insight/whos-driving-consumer-credit-growth.

The supply of non-standard finance in the UK



Source: L.E.K. – Executive Insight Volume XX, issue 39 and Company estimates.

4 NSF is well-positioned

Top three position in each business segment	High risk-adjusted margins[1]	Highly experienced senior management team

Branch-based lending

#1

Branch-based risk-adjusted margins %

95 years' experience

Guarantor loans

#2

Guarantor loans risk-adjusted margins %

62 years' experience

3 External drivers are mostly favourable

Macroeconomic

- ✓ Record rates of employment/low unemployment[1]
- ✓ Real weekly incomes, including bonuses, increased by 1.2% in 2018[1]
- ✓ Having peaked at 4.5% per annum in 2011, inflation (consumer price index including owner occupiers' housing costs) has reduced to 1.8%[2]
- ✗ Brexit creates general uncertainty but is not expected to affect most of our customers, all of whom are UK-based

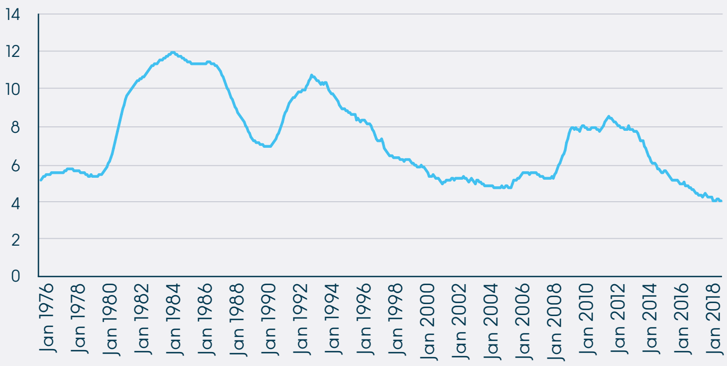
Competition

- ✓ Highly fragmented with limited number of large, profitable and well-capitalised firms
- ✓ Many mainstream lenders left the market post-2008
- ✗ Technology evolution may mean that new business models emerge

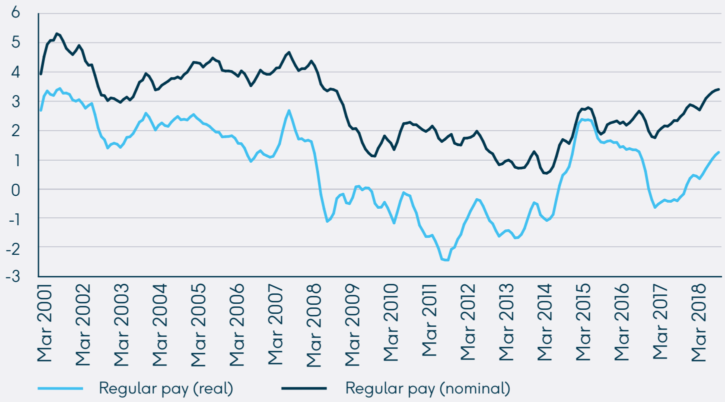
Regulation

- ✓ Strict regulatory framework ensures a level playing field for all operators
- ✓ FCA has introduced some changes in home credit that are not expected to have a material impact on our business[3]
- ✗ Continuous evolution of the regulatory framework

Unemployment rate %



Regular pay growth rate %



Source: ONS: UK Labour Market: 19 February 2019.

1 ONS – UK Labour Market: February 2019, 19 February 2018.
2 ONS – Consumer price inflation, UK: January 2019, released 13 February 2019.
3 FCA – CP18/43 High-Cost Credit Review, Feedback on CP18/12 with final rules and guidance and consultation on Buy Now Pay Later offers, December 2018.

Top three position in all three business segments

Home credit
#3

High risk-adjusted margins[1]

Home credit risk-adjusted margins %

Highly experienced senior management team

133
years' experience

£330m of committed long-term debt funding

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

A relationship driven model

Source long-term capital + Develop focused, tailored and affordable loan products + Attract customers

Lend responsibly

1. Identify suitable customers
2. Assess credit via external and internal scorecard
3. Understand customer needs
4. Assess affordability (income and expenditure)
5. Tailor product to suit their needs
6. Ensure customer understands

By phone → Face-to-face ← Online

Collect responsibly

1. Encourage timely payment
2. Show forbearance if and when required
3. Identify vulnerability
4. Suggest sources of support if in difficulty

Manage risks and key stakeholders

- Conduct
- Regulation
- Credit
- Liquidity
- Competition
- Business strategy
- Operations
- Reputation
- Cyber risk

Reinvest in our core assets

- Networks
- People
- Technology
- Brands

Reward providers of funding

- Debt
- Equity

Manage costs

- Network/infrastructure costs
- Interest
- Taxes
- Losses/Impairments

Why we are different

Culture

Providing our customers with 'a helping, but firm hand' is an approach that is embedded deeply within each of our businesses. Whilst we operate within a strict framework of clear processes and procedures, we are entrepreneurial and are not afraid to try new things if we think they will make a positive difference. We listen carefully, learn fast and don't blame others when we make mistakes. Instead, we aim to learn from them so that we can deliver better outcomes for our customers and greater long-term returns for our shareholders.

→ See Corporate and social responsibility section on page 46

Management

NSF is led by a highly experienced Board and senior management team with extensive knowledge of the sector and a proven track record of building businesses and creating value for shareholders.

→ See Governance section on page 50

Infrastructure

Our large branch and agent networks mean we can meet the vast majority of our customers face-to-face. However, we have also invested in sophisticated technology platforms that are improving our customer service and collection capabilities. Whilst more expensive to operate than some remote-only models, our networks are highly scalable and tend to result in much lower rates of impairment than pure remote models.

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 page 30

Access to long-term funding

The Group is financed through a combination of long-term debt and equity to meet the growth plans of each of our business divisions.

→ See Financial Review on page 33

How we create value

Customers

Feefo rating[1]
4.9/5
(2017: 4.8/5)

Trust Pilot[3]
90%
(2017: 91%)

Net promoter scores[2]
98%
(2017: 97%)

FOS complaints[4]
0.01%
(2017: 0.00%)

Shareholders

Loan book growth[5]

Branch-based lending
25%
(2017: 21%)

Guarantor loans
61%
(2017: 34%)

Home credit
2%
(2017: 49%)

Return on assets[5]

Branch-based lending
15.8%
(2017: 15.3%)

Guarantor loans
11.3%
(2017: 13.1%)

Home credit
17.7%
(2017: (4.8)%)

Payout ratio[6]
63%
(2017: 64%)

People

Total training days[7]
4,460
(2017: 3,217)

Communities

Number of staff
863
(2017: 751)

Number of branches/offices
134
(2017: 125)

Number of self-employed agencies
897
(2017: 1,005)

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, based on 3,867 reviews with a maximum score of 5. The same score for TrustTwo was 4.5 out of 5 based on 514 reviews (2017: 4.7/5).
2 Percentage of customers that were 'very satisfied' or 'quite satisfied' with overall services at Loans at Home – last survey based on 300 responses (January to December 2018) (2017: 299 responses (January to December 2017)).
3 TrustPilot.com is an online review community website. Based on 2,290 reviews, 90% rated George Banco as 'Excellent' (2017: 91%).
4 Number of upheld cases at the Financial Ombudsman Service as a percentage of 278,468 loans written in 2018 (2017: 250,483 loans written): Everyday Loans: 20 cases (2017: 3 cases); TrustTwo and George Banco: 4 cases (2017: 3 cases); Loans at Home: 8 cases (2017: 6 cases).
5 See glossary of alternative performance measures and key performance indicators in the Appendix.
6 Based upon 2018 normalised earnings per share before deferred consideration of 4.14p (2017: 3.44p) and a total dividend per share of 2.60p (2017: 2.20p). See glossary of alternative performance measures and key performance indicators in the Appendix.
7 Total for Everyday Loans, Guarantor Loans Division and Loans at Home (staff and agents).

The Group has continued to make good progress

Having come to the end of a period of significant investment and structural change, the Group is well-positioned for further growth.

> “Whilst less than five years old, NSF is firmly established as a leading player in three segments of the UK’s non-standard finance sector
>
> **John van Kuffeler**
> Group Chief Executive

Summary of 2018 full-year results

Year to 31 December	2018 £'000	2017 £'000	% change
Normalised revenue[1]	**166,502**	119,756	*+39%*
Reported revenue	**158,824**	107,771	*+47%*
Normalised operating profit[1]	**35,876**	23,684	*+51%*
Reported operating profit	**19,517**	3,802	*+413%*
Normalised profit before tax[1]	**14,769**	13,203	*+12%*
Reported (loss) before tax	**(1,590)**	(13,021)	*+88%*
Normalised profit after tax[1]	**11,572**	10,890	*+6%*
Reported (loss) after tax	**(1,679)**	(10,335)	*+84%*
Normalised earnings per share[2]	**3.70p**	3.44p	*+8%*
Reported (loss) per share	**(0.54)p**	(3.26)p	*+84%*
Full-year dividend per share	**2.60p**	2.20p	*+18%*

Context for results

- The 2018 and 2017 results are not strictly comparable as (i) George Banco was acquired on 17 August 2017; and (ii) from 1 January 2018 the Group adopted IFRS 9, a new accounting standard covering financial instruments that replaces IAS 39: Financial Instruments: Recognition and Measurement.
- As permitted by IFRS 9, comparative information for 2017 has not been restated. Refer to notes to the financial statements for the transitional impact of IFRS 9.
- The 2018 and 2017 reported results include fair value adjustments, amortisation of acquired intangibles and exceptional items relating to acquisitions. Normalised results are presented to demonstrate Group performance before these items.
- Normalised operating profit in 2018 has been reduced by a £1.4m accounting charge (2017: £nil) for deferred consideration payable to vendors of George Banco that remained as employees of the Group.

2018 full-year results

The Group has continued to make good progress. Each of our chosen segments of the non-standard finance sector are delivering in line with our plans for loan book growth whilst impairment remains under tight control. This result was achieved despite continued investment in our branch networks, our people and our technology – a process that has been underway for the past two and a half years. Having now completed this phase of particularly intense investment in the Group, we are well-placed to both achieve our future growth plans and deliver sustained earnings growth.

The key operational and strategic milestones achieved during the year included:

Branch-based lending:

- net loan book[3] up 25% to £186.2m
- impairment stable at 21.5% of revenue[1]
- 12 new branches opened taking the total to 65
- 99 new staff added
- over 1.6 million loan applications processed, up 59%
- over 61,000 active customers, up 30%

Guarantor loans:

- net loan book[3] up 61% to £83.1m
- rate of impairment as a percentage of revenue[1] well below the market leader
- over 758,000 loan applications processed, up 66%
- move to a single loan management platform for new loans completed on time and on budget
- added 31 new staff and moved to larger premises in Trowbridge
- over 25,000 active customers, up 44%

Home credit:

- net loan book[3] up 2% to £41.0m, after 49% growth in 2017
- impairment down from 37.6% to 32.6% of revenue[1]
- 93% of all new applications were processed through the new lending app (2017: 25%)
- increased efficiency through a number of technology-led process improvements
- more streamlined management structure in place from January 2019

Group:

- additional £70m of long-term funding now in place
- recommended final dividend of 2.00p per share totalling 2.60p per share for the full year

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 Basic and diluted earnings (loss) per share based on the weighted average number of shares in issue of 312,713,410 (2017: 316,901,254).
3 For reconciliation of net loan book growth see table in Financial Review.

29%
Loan book growth for the Group as a whole.

(6)%
Reduction in impairment from 27.1% to 25.6%.

On a like-for-like basis, the combined net loan book at 31 December 2018 increased by 29% to £310.3m, before fair value adjustments (2017: £241.2m) and to £314.6m (2017: £253.1m) after fair value adjustments. A summary of the other key performance indicators for each of our businesses for 2018 is shown in the table below.

A strong performance across all three divisions helped to increase normalised revenue by 39% to £166.5m (2017: £119.8m) whilst the sale of a small non-performing loan portfolio generated other operating income of £1.6m in the period (2017: £1.9m). Despite the strong loan book growth, impairment remained under tight control and was either within or below our previous guidance. Despite higher administration costs due to the opening of new branches and a £1.4m accounting charge for deferred consideration, normalised operating profit increased by 51% to £35.9m (2017: £23.7m) reflecting the operational gearing inherent within the business. A full-year impact of the acquisition of George Banco and associated debt refinancing in August 2017 meant that interest costs doubled to £21.1m (2017: £10.5m). As a result of these higher charges, mitigated somewhat by the benefit of share buy-backs during the year, normalised earnings per share increased by 8% to 3.70p (2017: 3.44p).

The Group's 2018 and 2017 reported or statutory results are significantly affected by the acquisition of George Banco, fair value adjustments, the amortisation of acquired intangibles associated with the acquisitions of Everyday Loans, Loans at Home and George Banco and the adoption of IFRS 9.

Reported revenue after fair value adjustments increased by 47% to £158.8m (2017: £107.8m) reflecting strong loan book growth and the inclusion of George Banco for a full period. Administration costs increased to £97.8m for the reasons outlined above (2017: £77.1m) together with a full period of intangibles amortisation associated with the acquisition of George Banco. There were no exceptional items incurred during 2018 (2017: £6.3m), the prior year figure having been due to the write-off of previously capitalised fees associated with a prior period debt raising. The net result was that the reported loss before tax was £1.6m (2017: loss of £13.0m) and the reported loss per share was 0.54p (2017: loss per share of 3.26p).

IFRS 9 Key performance indicators[1] Year ended 31 Dec 18	Branch-based lending	Guarantor loans	Home credit
Loan book growth	24.7%	61.0%	2.0%
Revenue yield	46.8%	32.2%	171.5%
Risk adjusted margin	36.7%	25.8%	115.6%
Impairments/revenue	21.5%	20.0%	32.6%
Impairments/average net loan book	10.1%	6.4%	55.9%
Operating profit margin	33.8%	35.2%	10.3%
Return on assets	15.8%	11.3%	17.7%

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

The strong performance on a normalised basis and our confidence in the outlook means that the Board is recommending a final dividend of 2.00p making a total of 2.60p for the year (2017: 2.20p). This represents an 18% increase versus last year.

Branch-based lending

As our largest business, the performance of Everyday Loans is a key driver of the Group's overall financial results. The trajectory that we have seen over the last couple of years continued during 2018 and the business's unrivalled position in the market delivered record levels of revenue and operating profit. The value of loans issued in the year increased by 28% to £149.5m (2017: £117.1m). A slight shift in mix meant that average revenue yields also increased to 46.8% (2017: 44.0%). However, this strong lending performance was not at the expense of a reduction in the quality of our collections, as evidenced by stable impairment as a percentage of normalised revenue of 21.5%. The net result was that normalised operating profit (before fair value adjustments, amortisation of acquired intangibles and exceptional items) was up 19% to £27.0m (2017: £22.7m).

Our investment in a further 12 new branches and associated infrastructure during the period was a key driver behind this strong performance. With 65 branches open at the year end, we have almost doubled the size of the network since acquiring the business in April 2016. Our latest assessment of market demand is that we now see scope for between 100–120 branches and we plan to open somewhere between five and 10 branches per annum each year for the foreseeable future. It is expected that this more modest rate of branch expansion will allow annual growth to flow through into profit more quickly.

Guarantor loans

Following the acquisition of George Banco in August 2017, our guarantor loans division became our second largest and fastest growing business. The market demand for guarantor loans shows no signs of slowing down and despite our continued investment in the integration of systems and processes, our net loan book still grew by 61% to reach £83.1m (2017: £51.6m). Increases in both the quality and number of leads reflected our focus on improving our customer journey which is helping to increase our appeal among financial brokers. The net result was that normalised operating profit increased more than two-fold to £7.7m (2017: £2.7m).

Despite having increased staff numbers significantly in 2018, we were still able to deliver productivity improvements, helping to drive business volumes further. Now that all loans are being written on a common loan management platform, we are focused on delivering additional enhancements to our customer journey, improvements that should help drive growth in 2019 whilst maintaining a tight control on impairment.

Digital transformation

Lending App usage
98% of our lending volume so far in 2019 is going through our online app.

Home credit

The benefits of the significant expansion that took place in 2017 continued to flow through into the 2018 full-year profit performance. As predicted at the time of the half year results in August 2018, whilst year-on-year growth slowed in the second half of 2018, the net loan book still reached £41.0m at the year-end (2017: £40.2m), an increase of 2% over the prior year. Our continued investment in technology and systems underpinned our ability to manage this growth effectively and also helped to reduce impairment from 37.5% to 32.6% of normalised revenue.

A small shift in business mix towards larger, long-term loans meant that average revenue yield fell slightly. However, we expect this shift to be temporary and have already begun to shorten the book with the result that yields should recover during 2019 as we return to a more normalised balance across each of our term products. The net effect was that normalised operating profit was up 116% to £6.7m (2017: £3.1m).

Having enjoyed a period of exceptional growth during 2017 and into 2018, we now expect our home credit business to return to a more normalised, single-digit rate of annual loan book growth reflecting the underlying demand for home credit and further migration of customers towards the larger players, including Loans at Home. Whilst we expect top-line growth to be modest going forward, we remain comfortable with our internal target of a long-term return on asset of at least 20% (before central costs).

Coventry is one of our newest branches.

Strategy

Whilst less than five years old, NSF is already firmly established as a leading player in three segments of the UK's non-standard finance sector with a combined net loan book of £310.3m (before fair value adjustments) and over 180,000 customers.

Our purpose and business strategy remain unchanged. As a Group we aim to provide affordable credit to the estimated 10 million consumers[1] that because of a poor or thin credit rating, may be unable or unwilling to borrow from more mainstream lenders. The reality is that many such consumers have few other sources of finance open to them and so we are meeting an important need, extending the availability of credit to many who might otherwise be financially excluded.

To fulfil this purpose, our business strategy has three distinct elements[2]:

- to be a leader in each of our chosen segments;
- to invest in our core assets (networks, people, technology and brands); and
- to act responsibly.

Each element has required significant investment over the past two and a half years, investment that is already starting to help drive revenue and operating profit in all three of our business divisions. Each division has a top three position in its own segment of the non-standard finance market, high risk-adjusted margins and an ability to deliver sustained and long-term returns for shareholders. This goal is underpinned by our objective to build strong, long-term relationships with our customers, something that lies at the heart of our business model (see page 10). Our preferred path to achieving this when lending direct is to meet our customers face-to-face, although we are also happy to do so through remote channels, when and if a guarantor is present.

Such an approach is seen by some as being 'old-fashioned' and/or 'inefficient'. Certainly, the infrastructure required in the form of national networks and large numbers of well-trained people means that our model is more expensive to operate than pure online providers. However, personal contact with our customers is an essential part of our underwriting process, one that has proven its ability to succeed whilst many digital models continue to be plagued by unsustainable rates of impairment and/or online fraud.

In executing our business strategy, 2018 saw us conclude what has been a particularly intense period of investment and structural change in the Group, details of which are set out in each of the divisional reports within the 2018 Financial Review on pages 33 to 45. More normalised levels of investment in the Group going forward mean that we are well-placed to reap the rewards of our investment to-date and to deliver sustained earnings growth.

1 L.E.K. Consulting and Company estimates.
2 For further details regarding the Group's business strategy please visit www.nsfgroupplc.com.

❝ *2019 has started well*

John van Kuffeler
Group Chief Executive

Funding
The Group secured a further £70m of additional debt funding in August 2018 on similar terms to the then existing arrangements. As a result, the Group now has total committed debt facilities of £330m.

The facilities now comprise a £285m term loan facility (the 'Term Loan'), provided by a group of institutional investors, led by Alcentra Limited. The Term Loan, which is not repayable until August 2023, bears an interest rate of LIBOR plus 7.25% per year with interest payable every six months. In addition, the Group has a £45m revolving credit facility provided by Royal Bank of Scotland at an interest rate of LIBOR plus 3.5% per year.

As at 31 December 2018 the Group had cash at bank of £13.9m (2017: £11.0m) and gross borrowings of £272.8m (2017: £208.1m) leaving total headroom on the Group's debt facilities of £57.2m (2017: £51.9m).

We are exploring a range of possible long-term debt financing options for the Group and will provide further updates as and when appropriate.

Regulation
After an extensive investigation into the high-cost credit market, including home credit, the regulator published their final rules and guidance[1] in December 2018. The operational changes required are not expected to have a material impact on our home credit business and we expect all changes to be fully embedded before the end of March 2019.

Through our FCA contacts during 2018 we believe we have established a good working relationship with the regulator at both an operational as well as a strategic level.

We continue to monitor all regulatory developments closely and where appropriate, will participate fully in any related consultations or debate. We are also ready to implement any appropriate measures that can further improve the delivery of great outcomes for our customers or that may be deemed necessary. We remain on track to implement the requirements of the forthcoming Senior Managers and Certification Regime when it comes into force during the second half of 2019.

For further details regarding the latest regulatory developments, please visit the Company's corporate website: www.nsfgroupplc.com.

Final dividend
Having declared a half-year dividend of 0.6p per share in August 2018 (2017: 0.5p), the Board is recommending a final dividend of 2.00p per share (2017: 1.70p), making a total of 2.60p for the year as a whole (2017: 2.20p).

If approved at the Company's Annual General Meeting on 1 May 2019, the final dividend would be paid to those shareholders on the Company's share register on 3 May 2019 (the 'Record Date'), with payment being made on 7 June 2019.

Possible implications of Brexit
Employment in the UK remains at an all-time high and real earnings growth is recovering, albeit slowly, factors that bode well for our customer base. Whilst macroeconomic and political uncertainty surrounding the possible implications of Brexit remain significant, we have not seen any notable effect on our business to-date and past recessions have demonstrated the contra-cyclical character of the non-standard market.

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. 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.

Current trading and outlook
2019 has started well with loan book growth in line with plan and impairment tightly controlled.

As evidenced by our recommended increase in the final dividend, we remain positive about the Group's full-year prospects and look forward with confidence.

John van Kuffeler
Group Chief Executive
14 March 2019

1 FCA – CP18/43 High-cost Credit Review: Feedback on CP18/12 with final rules and guidance and consultation on Buy Now Pay Later offers.

Our purpose is to provide affordable credit to those who are unable or unwilling to borrow from mainstream lenders.

As we do so, we seek to deliver positive outcomes for key stakeholders, including customers, investors, employees, partners and the communities in which we live and work.

Feature: Branch-based lending

Now there is a new branch near me, I was able to sort things face-to-face.

> *“Meeting our customers face-to-face helps us to improve our assessment of a customer’s ability to repay and also identify any potential vulnerabilities*

Miles Cresswell-Turner
CEO of Everyday Loans

Stakeholder outcomes

Investors
Increased geographic coverage has helped us to process more leads and issue more loans, increasing both revenue and profitability.

Customers
55% of all UK postcodes are now within 45 minutes driving time of one of our branches, increasing our reach and allowing us to serve more customers.

Investors
To support the opening of more branches we have invested in effective recruitment and training to underpin the delivery of strong loan book growth whilst maintaining a tight control on impairment.

Employees
As well as adding 99 new staff, we also delivered over 1,600 training days (2017: 1,500) helping staff to improve their performance and career progression.

Investors
Operational efficiency has increased with improved conversion and record levels of lending.

Employees
Average level of bonus-related pay increased by 9.4% as a result of strong performance against a range of operational KPIs throughout 2018.

Highlights

+25%
Increase
in net loan book[1]

+30%
Increase
in customer numbers to 61,200

0%
Impairment remained stable at 21.5% of normalised revenue[2] (2017: 21.5%)

+17%
more new borrower applications processed by our branch network

9%
conversion of pre-screened applications into loans booked (2017: 7%)

1 Before fair value adjustments.
2 See glossary of alternative performance measures and key performance indicators in the Appendix.

Being closer to our customers makes it easier for them to come and meet with us face-to-face, a key element of our overall lending process. Having more branches also increases our capacity to write loans and collect them effectively.

Investing in network capacity

Since April 2016, we have opened 29 new branches and added almost 200 new staff. We now believe that there is sufficient demand to support 100 to 120 branches across the UK and so plan to continue to expand our network, albeit at a more moderate pace of between five and ten branches per annum.

Link to strategy and business model

Investing in our core assets is a central pillar of our business strategy (see Our strategy and KPIs on page 26). At the centre of our business model (see page 10) is the fact that when lending direct, we look to meet our customers face-to-face.

As well as delivering attractive returns for our shareholders, the personal interaction with our staff is something that our customers value highly, as evidenced by our high rates of customer satisfaction and low numbers of complaints. Overleaf we explain how investing in our network capacity has benefited our key stakeholders.

Feefo rating[1]

1 www.feefo.com is a third-party customer review site. It invites customers at Everyday Loans to review our performance. The rating shown is the aggregation of all scores received for Everyday Loans with a maximum score of 5.

New branch openings

Staff recruitment and training

Sharing best practice

The staff were really friendly, had all of my details to hand and really put me at ease.

Feature: Guarantor loans

Stakeholder outcomes

Highlights

Investors
As well as reducing costs, the benefits of having a single, robust platform also include: scalability with limited further investment; real-time and improved data analytics; better customer retention; an ability to launch additional brands at low marginal cost; and more efficient deployment of staff.

Employees
With a common infrastructure, our staff can now both write and collect loans for each of our brands, creating greater flexibility and injecting additional capacity during particularly busy periods.

+61%
Increase
in net loan book[1]

+44%
Increase
in customer numbers to 25,100

Investors
Greater automation has both increased capacity and helped to maintain high normalised operating profit margins of 35.2% in 2018 (2017: 37.8%).

Partners
Increased capacity has increased conversion which is good news for our panel of financial brokers that were the source of 53% of the new cash issued in 2018.

+73%
Increase
in lending volume to £65.2m (2017: £37.6m)

Investors
Sharing best practice has delivered meaningful improvements in a number of key areas including conversion, productivity and delinquency management.

Regulators
A common set of processes and procedures ensures a greater consistency in approach, making it much easier to identify if something is not working as it should and then take the necessary steps to correct it.

+77%
Increase
in the number of training days to 399 (2017: 226)

1 Before fair value adjustments.

To take full advantage of the strong demand for credit requires investment in our products, processes and systems. Our vision is to develop a more tailored approach, one that ensures we continue to deliver great outcomes for our customers whilst at the same time increasing our operational efficiency.

Secure and robust technology infrastructure

The presence of a guarantor means that we are happy to lend remotely, without first meeting the borrower face-to-face. However, to do so effectively requires a robust and highly scalable technology infrastructure, one that continues to evolve as we improve our customer journey.

The integration of George Banco and TrustTwo onto a single loan management platform was completed during 2018 enabling the final elements of our target operating model to be finalised and implemented during the first half of 2019.

Link to strategy and business model

Being a leader in our chosen markets is a core pillar of our business strategy. We are the clear number two in guarantor loans and whilst smaller than the market leader, we are increasing our market share through a continuous process of product, systems and process innovation.

Overleaf we explain how investing in our technology has helped us to achieve this whilst benefiting our key stakeholders.

+61%

Increase in the number of loans booked in 2018.

Single loan management platform

Greater automation

Training and sharing of best practice

Everything is easier now my agent does everything through her phone.

Feature: Home credit

Stakeholder outcomes

Highlights

Investors
Despite the capital investment required, the transformation of our operations to digital has helped to facilitate significant growth in our net loan book since 2016, reduced direct operating costs and helped to mitigate the risk of poor customer outcomes.

Customers and self-employed agents
Agents now have all of their customers' loan details at their fingertips and can quickly capture the details required to issue new loans as well as provide accurate and up-to-date information on their account.

+28%
Increase
in normalised revenue[1]

99%
of customers were very satisfied or quite satisfied[2]

Investors
By identifying outliers across a series of KPIs, managers are now able to focus on the core drivers of value for the business, helping to drive improved operating performance.

Customers
As well as financial performance metrics, agents' and managers' performance is also monitored against a range of good customer outcomes metrics with poor performance resulting in the potential clawback of rewards gained for financial outperformance.

+26%
Increase
in collections to £125.9m (2017: £99.7m)

Investors
Cyber is a key risk for the Group and is one we take very seriously. During 2018 we completed the move of all of Loans at Home's key digital infrastructure into the Cloud with Microsoft Azure, that provides the very highest standards of infrastructure security and support.

Regulators
As an FCA-regulated business, ensuring data security for our customers as well as our regulators is key.

99.8%
uptime since the migration[3]

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 Tracker Research: Results to September 2018: All respondents excluding refused (Jan, Feb & Mar 2018: 300) (April, May & June 2018: 299) (July, Aug & Sept 2018: 299).
3 Figure would have been 99.9% but for a nationwide outage that impacted 25 million users on the O2 network in early December 2018.

Home credit has been a valued source of credit for some of the UK's lowest income consumers for over 130 years.

Transforming our business through technology

Advances in technology have transformed our business model to one where lending and collecting can now be recorded in real-time with benefits for customers, agents, staff and investors whilst providing greater regulatory oversight.

Link to strategy and business model

Acting responsibly is the third pillar of our business strategy. With a clear audit trail of agent activity and by automating several administrative tasks, managers can spend more time with agents and customers, helping to improve our service and mitigate conduct risk (see Principal risks on page 30).

Overleaf we explain how our investment in technology has transformed our business and benefits our key stakeholders.

93%

of new loans in 2018 were completed using our digital lending application process (2017: 25%).

Digitising our lending and collections process

Real-time management information

Data security and reliability

Being a leader in each of our chosen segments

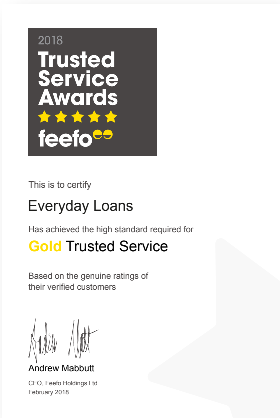
Our goal is to be the best at what we do – not just from a customer's perspective, but also from that of our other key stakeholders including employees, our regulators and our communities.

> *"We are focused on being the best, delivering great outcomes for customers and long-term returns for shareholders*
>
> **John van Kuffeler**
> Group Chief Executive

While credit markets have continued to evolve through changes in technology, regulation and consumer demand, we believe that the core elements of what good lending looks like have not changed:

- know our customers really well;
- tailor our products to suit their needs;
- deliver great customer service; and
- if they get into difficulty, work with them to achieve a satisfactory solution for both borrower and lender.

Progress and outlook
Whilst robust procedures, policies and a well-invested infrastructure are important for any successful regulated lender, the importance of our people in ensuring we achieve our goal to be a leader in our chosen markets has meant that we have also continued to invest in promoting the right culture and ethos at all levels of our business. This has included extensive training, improved communications and a balanced incentive structure that is heavily influenced by the delivery of good customer outcomes. Each of these initiatives mean we are well-positioned to maintain our leadership positions in 2019.


2018
Trusted Service Awards
feefo
This is to certify
Everyday Loans
Has achieved the high standard required for
Gold Trusted Service
Based on the genuine ratings of their verified customers
Andrew Mabbutt
CEO, Feefo Holdings Ltd
February 2018

Everyday Loans received a Gold Trusted Service certificate in February 2018 from Feefo in recognition of its high rating by customers.

1 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. For guarantor loans the score is for TrustTwo only.
2 % of respondents to a customer survey that said they were very satisfied or quite satisfied. 2018 KPI relates to period January to December 2018 based on 300 responses. 2017 KPI relates to period July, August, September, October, November, December 2017 based on 299 responses.
3 Key performance indicators are on the basis that IFRS 9 had been adopted from 1 January 2017. 2016 KPIs have not been restated and are presented under IAS 39. George Banco is included in 2018 and 2017 KPIs but not in 2016. See glossary of alternative performance measures and key performance indicators in the Appendix.

KPI measure	Rationale	Medium-term target	2018 KPI	Status
Number of active customers	Evidence that our reach and quality of service is driving customer volumes. We have increased our target for branch-based lending and guarantor loans reflecting the pace of growth in recent years.	**Branch-based lending** **100,000** (2017: 60,000)	**Branch-based lending** 2018 61,200 2017 47,050 2016 39,600	
		Guarantor loans **50,000** (2017: 30,000)	**Guarantor loans** 2018 25,100 2017 17,400 2016 3,300	
		Home credit **120,000** (2017: 120,000)	**Home credit** 2018 93,800 2017 104,100 2016 93,600	
Customer satisfaction	A lead indicator of future business volumes given our numbers of repeat customers and customer referrals.	**Branch-based lending[1]** **>4.5/5**	**Branch-based lending** 2018 4.9/5 2017 4.8/5 2016 4.8/5	
		Guarantor loans[1] **>4.5/5** (2017: >4.5/5)	**Guarantor loans[1]** 2018 4.5/5 2017 4.6/5 2016 4.7/5	
		Home credit[2] **>95%** (2017: >95%)	**Home credit[2]** 2018 98% 2017 97% 2016 98%	
Annual loan book growth[3]	With a larger loan book we can reach more customers and deliver attractive returns to shareholders. We don't want to grow too quickly as this can lead to operational challenges, impacting performance. We have increased our target for guarantor loans and reduced it for home credit, reflecting the outlook for both segments.	**Branch-based lending** **20%** (2017: 20%)	**Branch-based lending** 2018 25% 2017 21% 2016 18%	
		Guarantor loans **30%** (2017: 20%)	**Guarantor loans** 2018 61% 2017 34% 2016 19%	
		Home credit **2–5%** (2017: 20%)	**Home credit** 2018 2% 2017 49% 2016 19%	
Risk adjusted margin[3]	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. We have adjusted our targets to reflect the impact of IFRS 9 which has particularly affected risk adjusted margins in the home credit business.	**Branch-based lending** **35%** (2017: 35%)	**Branch-based lending** 2018 36.7% 2017 34.6% 2016 35.1%	
		Guarantor loans **30%** (2017: 30%)	**Guarantor loans** 2018 25.8% 2017 29.3% 2016 26.7%	
		Home credit **115%** (2017: 95%)	**Home credit** 2018 115.6% 2017 111.4% 2016 97.3%	
Return on assets[3]	This shows we are allocating capital properly and delivering the returns required by our shareholders. Whilst the investment in all three divisions in recent years means we are not yet at our target, we made solid progress in 2018. The pace of growth in the guarantor loans loan book, particularly in the second half, held back the KPI for 2018 as a whole.	**Branch-based lending** **20%** (2017: 20%)	**Branch-based lending** 2018 15.8% 2017 15.3% 2016 17.1%	
		Guarantor loans **20%** (2017: 20%)	**Guarantor loans** 2018 11.3% 2017 13.1% 2016 8.5%	
		Home credit **20%** (2017: 20%)	**Home credit** 2018 17.7% 2017 (4.8)% 2016 6.7%	

- **Green** Already achieving medium-term target
- **Amber** On track to achieve medium-term target
- **Red** Not yet on track to meet medium-term target

Investing in our core assets

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.

> *"Having secured leading positions in each of our three segments, we expect the need for significant capital investment to reduce, allowing greater returns to flow to our shareholders*
>
> **Nick Teunon**
> Chief Financial Officer

In 2018 we completed the final phase of significant investment with expansion in all three divisions:

- Branch-based lending – 12 new branches opened
- Guarantor loans – integration onto a single loan management platform, new office location in Trowbridge
- Home credit – roll-out of handheld technology complete and all key infrastructure now cloud-based

Progress and outlook
In branch-based lending we opened a further 12 new Everyday Loans branches during the year and added almost 100 new staff. In guarantor loans we added 19 new staff, moved to a new office in Trowbridge and integrated onto a single loan management platform. In home credit, we completed the migration of our systems into the cloud and processed 93% of all loans issued through our new digital lending app (with 98% of all loans so far in 2019 being processed this way).

In 2019 we plan to continue to build on our strong market positions through further investment, albeit at a more modest rate than in 2018, 2017 and 2016.

98%
of all new loans in home credit so far in 2019 have been issued using our lending app.

KPI measure	Rationale	Medium-term target	2018 KPI	Status
Number of branches/offices	By increasing our geographic coverage we can be closer to customers. Following a detailed review of the market we have increased our medium-term target in branch-based lending.	**Branch-based lending** 100–120 (2017: 70–80)	**Branch-based lending** 2018 65; 2017 53; 2016 41	Green
		Home credit 75–80 (2017: 75–80)	**Home credit** 2018 66; 2017 69; 2016 47	Amber
People turnover	We aim to keep this within industry norms by offering competitive financial rewards and creating environments where people enjoy their work. We have increased our medium-term targets in branch-based lending and guarantor loans to reflect the fact that we are growing much faster than previously expected.	**Branch-based lending** 20% (2017: 15%)	**Branch-based lending** 2018 20%; 2017 19%; 2016 15%	Green
		Guarantor loans 20% (2017: 15%)	**Guarantor loans** 2018 36%; 2017 37%; 2016 16%	Red
		Home credit[1] <5% (2017: <5%)	**Home credit**[1] 2018 3%; 2017 3%; 2016 2%	Green
% of the number of loans booked in the year to new customers[2]	We need to continue to attract new customers as well as look after existing ones if we are to succeed. The different dynamics of our three divisions means that new customers are most important in branch-based lending and guarantor loans.	**Branch-based lending** 65–70% (2017: 65–70%)	**Branch-based lending** 2018 73%; 2017 70%; 2016 67%	Green
		Guarantor loans 65–70% (2017: 65–70%)	**Guarantor loans** 2018 64%; 2017 62%; 2016 n/a	Amber
		Home credit 15–20% (2017: 15–20%)	**Home credit** 2018 17%; 2017 26%; 2016 24%	Green

1 Average monthly turnover of self-employed agents, excluding vacancies (monthly leavers as a % of total number of agents).
2 Proportion of loans booked in a year to new or previous borrowers (i.e. excluding existing borrowers).

- **Green** Already achieving medium-term target
- **Amber** On track to achieve medium-term target
- **Red** Not yet on track to meet medium-term target

Acting responsibly

'Doing the right thing' is one of our core business values and runs throughout all of our activities, policies and procedures.

> *"Being aware of our responsibilities to a broad group of stakeholders helps to ensure that our business model can be both improved and sustained*
>
> **Heather McGregor**
> Chair, Risk Committee

Our focus on 'doing the right thing' applies whenever we interact with our key stakeholders: our customers, investors, employees, partners and the communities where we work.

Our KPIs are designed to help us measure our performance so that we can identify areas of potential risk and determine whether or not our working practices can be improved or need to change.

Loan Smart

NSF is a founding supporter of Loan Smart, a charity established to help consumers avoid loan sharks and offering guidance on where to get debt-related advice. See more at www.loansmart.org.uk.

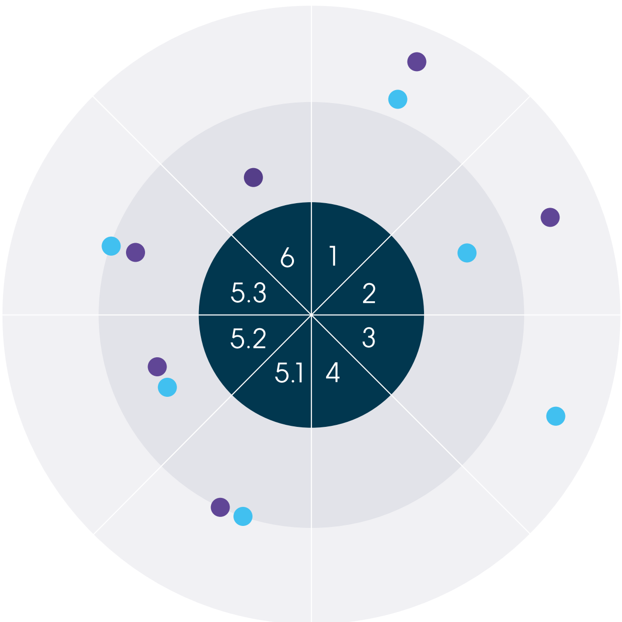
KPI measure	Rationale	Medium-term target	2018 KPI	Status
Impairment as a % of revenue[1]	Lending is easy, but lending responsibly and profitably is more difficult – this measure helps us balance loan book growth and short-term profitability. Grow too quickly, or lend when you shouldn't, and impairment will increase to unacceptable levels as customers fall into arrears. Note that 2017 targets were set under IAS 39. The revised targets reflect the adoption of IFRS 9 (see Financial Review on page 33).	**Branch-based lending** 20–22% (2017: 20–25%)	**Branch-based lending** 2018 21.5%; 2017 21.5%; 2016 20.0%	●
		Guarantor loans 20–22% (2017: 13–17%)	**Guarantor loans** 2018 20.0%; 2017 15.5%; 2016 14.8%	●
		Home credit 33–37% (2017: 30–35%)	**Home credit** 2018 32.6%; 2017 37.6%; 2016 36.3%	●
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. Careful monitoring of all complaints shines a light on areas of our service that need to improve. That said, the number of upheld complaints remains low.	**Branch-based lending** <1%	**Branch-based lending** 2018 0.0%; 2017 0.0%	●
		Guarantor loans <1%	**Guarantor loans** 2018 0.0%; 2017 0.0%	●
		Home credit <1%	**Home credit** 2018 0.0%; 2017 0.0%	●
Staff engagement surveys	With over 860 staff and their importance in helping us to deliver a great service, engagement is critical and without it we will not succeed. Whilst we have yet to conduct a survey across the entire guarantor loans division, we intend to do so in 2019.	**Branch-based lending**[2] >70%	**Branch-based lending** 2018 98%; 2017 71%	●
		Home credit[3] >75%	**Home credit** 2018 82%; 2017 89%	●
Charitable giving	In 2017 the Group adopted a formal charity policy to provide financial support for debt-related as well as other charities. Our chosen charities in 2018 included: The Alzheimer's Society, National Debtline (run by The Money Advice Trust) and Loan Smart.			

1 Key performance indicators are on the basis that IFRS 9 had been adopted from 1 January 2017. 2016 KPIs have not been restated and are presented under IAS 39. See glossary of alternative performance measures and key performance indicators in the Appendix.
2 Percentage of staff that scored at least 4 out of 5 in response to the question 'I am satisfied working at Everyday Loans' – leadership survey in May 2018 (2017: November 2017).
3 Percentage of respondents scoring 4 out of 5 or higher in response to the question 'I enjoy coming to work/I have fun at work' – internal survey in October/November 2018 (2017: Q4 2017).

● **Green** Already achieving medium-term target
● **Amber** On track to achieve medium-term target
● **Red** Not yet on track to meet medium-term target

A rigorous approach to risk management

Our principal risk categories



- Very High
- High
- Medium

- 2018 assessment
- 2017 assessment

1 Conduct
2 Regulation
3 Credit
4 Business strategy
5.1 Business risk – operational
5.2 Business risk – reputational
5.3 Business risk – cyber
6 Liquidity

Note that Credit Risk is now deemed to be 'low' and Business Strategy Risk remains 'low' and so they do not feature in the chart above.

There are a number of potential risks that could have a material impact on the Group's performance and that might cause actual financial results to differ materially from both expected and historic results.

During 2018, the Group implemented the core components of Xactium, a Group-wide Risk Management System. The process of embedding this system into each division has helped to reinforce robust First Line risk management activity and is helping to provide clear Second Line oversight across the Group. Adopting a Group-wide approach also allows risks to be considered and reported on a thematic basis at Group level whilst continuing to ensure there is a clear audit trail through to the operational detail. The new system is expected to become fully embedded over the next 12–18 months and will also help to enhance the quality and depth of risk reporting in future periods.

The chart opposite highlights each of the principal risk categories identified by the Board via the new Risk Management System (i.e. those with the highest residual risk ratings for the Group). The following table goes into more detail and identifies for each risk category (i) what we are doing to manage these risks; (ii) whether each risk has increased, decreased or stayed the same over the past year; and (iii) where there has been a change, a brief explanation as to why the change has occurred.

Following the announcement of a firm offer for Provident Financial plc on 22 February 2019, if the offer is successful, then certain of the key risks identified in the following pages may change or additional risks may be identified. Further details of such risks are contained in the prospectus issued in connection with the firm offer and which is available on the Group's website, www.nsfgroupplc.com.

For further information on our approach to risk, please see the Risk Committee report on page 65.

Decreased Increased Unchanged

Risk/definition	Mitigation	Change in 2018	Explanation
1. Conduct			
Inappropriate or sub-standard behaviour by the Group's representatives.	• A strong culture committed to 'doing the right thing' and delivering great outcomes for customers • Extensive training • Close and active monitoring of customer complaints • Balanced incentive programme • Clear policies and procedures, including whistleblowing • Carefully designed incentive programmes with appropriate malus and clawback provisions when required standards are not met • Diligent application of 'Three Lines of Defence': – policies, procedures and quality assurance in customer-facing roles; – compliance and conduct assurance; and – internal audit.	Unchanged	In Q4 2018 we appointed an internal candidate as Group Risk Officer who is responsible for managing the risk and compliance functions within each of our three operating divisions. This helps to ensure a consistent approach in our management of key risks, including conduct risk. In branch-based lending and guarantor loans we have enhanced the assessment of customer applications, thereby improving our overall sales process. Governance and remuneration schemes have also been reviewed and revised ensuring the business's success is built upon good customer outcomes. In home credit, the business has continued to embrace and implement technology solutions to ensure that the whole customer journey can be supported digitally, from application, to agent collections. The launch of a customer portal in Q4 2018 now allows customers to have direct access to their account information online 24/7. A review of remuneration schemes is currently taking place, ensuring that good customer outcomes continue to be at the heart of how we reward our people and business assurance processes have been further enhanced.
2. 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. A list of the key regulatory developments over the past year is available on the Group's website: www.nsfgroupplc.com.	• 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 • A continuous process of investment, quality assurance and internal audit reviews ensures we meet all of our regulatory obligations	Decreased	All of the Group's business divisions are fully authorised by the FCA. Having now completed its in-depth review of high-cost credit, the FCA has introduced some additional operational requirements for regulated home credit firms but these are not expected to have any material impact on the Group.
3. 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 each business's credit scorecard and lending criteria • Regular credit committee reviews of policies and outcomes	Decreased	The levels of impairment in all three business divisions remained within (or below) our tolerance levels during 2018. Credit risk no longer features as a 'top risk' as the Group now has controls in place to mitigate the residual risk rating to within appetite which are now included within the risk system score.
4. Business strategy			
A risk that the Group's strategy fails to deliver the outcomes expected. 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 review of weekly and monthly management information on operating performance • Careful monitoring of market dynamics, competitor behaviour and performance • The Board conducts an annual review of all aspects of the Group's strategy	Unchanged	The Group delivered strong loan book growth with high risk-adjusted margins in 2018. No acquisitions were made in 2018. On 22 February 2019, the Company announced a firm offer to acquire Provident Financial plc. The outcome of the proposed acquisition is not yet known, however, the Board believes that the transaction represents a compelling strategic and financial opportunity to create shareholder value. The execution risk of the transaction has been assessed and has been considered in the Directors' assessment of going concern and viability.

Principal risks *continued*

Decreased Increased Unchanged

Risk/definition	Mitigation	Change in 2018	Explanation
5.1 Business risk (operational)			
Key areas of operational risk for the Group include: • IT failure • integration of George Banco and TrustTwo onto a single technology platform • 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 • disaster recovery and business continuity	• IT policies are in place to mitigate risk including disaster recovery plans • George Banco has been successfully launched onto the Everyday Loans loan management platform, with all new loans now being written this way. This integration was completed on schedule and on budget • Policies, procedures and extensive training is 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 management team sit on and attend all board meetings of the operating subsidiaries • Detailed business continuity plans have been prepared and adopted by all three business divisions	Unchanged	There is no plan to migrate any of the historic George Banco loans to the new system – these will continue to be managed on the previous system that will be decommissioned when all loans have matured (expected in three or four years). Phase II of the integration of George Banco and TrustTwo is now underway to align the customer journeys for both brands – this is due to complete during 2019. The Government has announced a series of consultations into working practices in the UK including one on employment status. As a result, the employment status of self-employed workers for a number of UK business models may be subject to change. While agent-related incidents are rare, we continue to ensure that agents follow carefully designed procedures so they remain safe. A tight span of control helps to provide appropriate oversight of all areas of our home credit business. The Group is able to recruit the people that it needs to execute its plans and while there is a degree of staff turnover, this is within accepted levels of tolerance.
5.2 Business risk (reputational)			
Whilst embodied within the business risk category, damage to the Group's reputation is identified separately as a key risk for the Group. 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 listed company 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 Corporate and Social Responsibility on pages 46 to 49).	Unchanged	We continue to engage actively with all of our key stakeholders, including the FCA, Members of Parliament, debt-related charities, other regulators, journalists, think-tanks, investors and debt providers. Through this process of engagement, we aim to demonstrate that not all consumer finance companies are the same – we explain why we are different and why we believe that NSF stands out from competitors. This has included supporting the launch of a new charity: Loan Smart, that is focused on helping consumers wise up to the dangers of illegal lending.
5.3 Business risk (cyber)			
The Group may suffer data loss or be subject to an unauthorised change that causes a security issue, data or systems abuse, cyber-attack or denial of service to any of the Group's systems.	• The Group has dedicated internal teams, supported by external providers that monitor and assess such risks • Divisional and Group Risk Committees oversee cyber risks including monitoring and crisis management plans in line with industry best practice • Internal audit and external third-party review of cyber security status across all businesses	Increased	Increased criminal activity together with the increasing importance of data and data analytics means that this risk has been identified separately from operational risk. Many recent examples of where such risks have become reality, together with concerns raised by the FCA mean that the Group now views such risks as being greater than previously and as a result is continuing to invest in ensuring our systems and data are protected.
6. 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 increased its long-term debt funding arrangements in September 2018 on similar terms as its previous facilities • The £285m term loan facility is not repayable until 2023 and is supplemented by a £45m revolving credit facility • Cash and covenant forecasting is conducted on a monthly basis as part of the regular management reporting exercise	Decreased	With net debt[1] of c.£259m and total debt facilities of £330m at 31 December 2018, the Group has sufficient headroom on its existing facilities to fund the Group's growth plans. Given the high growth expected in both branch-based lending and guarantor loans, the Group is likely to commence a process to add further long-term funding during the second half of 2019.

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

A further year of investment-led growth

Nick Teunon
Chief Financial Officer

> *"Normalised operating profit rose by 51%*
>
> **Nick Teunon**
> Chief Financial Officer

Context for 2018 Group results

- The 2018 and 2017 results are not strictly comparable as (i) George Banco was acquired on 17 August 2017; and (ii) from 1 January 2018 the Group adopted IFRS 9, a new accounting standard covering financial instruments that replaces *IAS 39: Financial Instruments: Recognition and Measurement.*
- As permitted by IFRS 9, comparative information for 2017 has not been restated. Refer to notes to the financial statements for the transitional impact of IFRS 9.
- The 2018 and 2017 reported results include fair value adjustments, amortisation of acquired intangibles and exceptional items relating to acquisitions. Normalised results are presented to demonstrate Group performance before these items.
- Normalised operating profit in 2018 has been reduced by a £1.4m accounting charge (2017: £nil) for deferred consideration payable to vendors of George Banco that remained as employees of the Group.

2018 financial summary

Year ended 31 December 2018	Normalised[1] £'000	Fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	Reported £'000
Revenue	**166,502**	**(7,678)**	**158,824**
Other operating income	1,626	–	1,626
Modification loss	(482)	–	(482)
Impairments	(42,688)	–	(42,688)
Admin expenses	(89,082)	(8,681)	(97,763)
Operating profit	**35,876**	**(16,359)**	**19,517**
Exceptional items	–	–	–
Profit (loss) before interest and tax	**35,876**	**(16,359)**	**19,517**
Finance cost	(21,107)	–	(21,107)
Profit (loss) before tax	**14,769**	**(16,359)**	**(1,590)**
Taxation	(3,197)	3,108	(89)
Profit (loss) after tax	**11,572**	**(13,251)**	**(1,679)**
Earnings (loss) per share[1]	**3.70p**		**(0.54)p**
Dividend per share	**2.60p**		**2.60p**

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

2018 Financial review *continued*

Year ended 31 December 2017	Normalised[1] £'000	Fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	Reported £'000
Revenue	119,756	(11,985)	107,771
Other operating income	1,926	–	1,926
Impairments	(28,795)	–	(28,795)
Admin expenses	(69,203)	(7,897)	(77,100)
Operating profit	23,684	(19,882)	3,802
Exceptional items	–	(6,342)	(6,342)
Profit (loss) before interest and tax	23,684	(26,224)	(2,540)
Finance cost	(10,481)	–	(10,481)
Profit (loss) before tax	13,203	(26,224)	(13,021)
Taxation	(2,313)	4,999	2,686
Profit (loss) after tax	10,890	(21,225)	(10,335)
Earnings (loss) per share[2]	3.44p		(3.26)p
Dividend per share	2.20p		2.20p

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 Basic and diluted earnings (loss) per share based on the weighted average number of shares in issue of 312,713,410 (2017: 316,901,254).

Normalised revenue was up 39% to £166.5m (2017: £119.8m) reflecting strong loan book growth and a full-year's contribution from George Banco. Despite the inclusion of a full-year fair value adjustment to revenue for George Banco for the first time, a reduced adjustment for both Everyday Loans and Loans at Home in 2018 meant that reported revenue increased by 47% to £158.8m (2017: £107.8m). Whilst underlying growth and associated infrastructure investment resulted in a marked uplift in administration costs (that also included an accounting charge of £1.4m for deferred consideration associated with the acquisition of George Banco), normalised operating profit rose by 51% to £35.9m (2017: £23.7m). This was driven by strong loan book growth and careful management of both impairment and administration costs. A full period of George Banco meant that the reported operating profit was up four-fold to £19.5m (2017: £3.8m). There were no exceptional items incurred during 2018 (2017: £6.3m), the prior year having included the write-off of previously capitalised fees incurred in connection with the Group's previous debt raising as well as M&A-related costs. Finance costs increased significantly to £21.1m (2017: £10.5m) due to increased levels of borrowing and the higher borrowing cost of the Group's new debt arrangements.

The net result was that the Group reported a much reduced reported loss before tax of £1.6m (2017: loss of £13.0m). The tax charge of £0.1m (2017: credit of £2.7m) meant that the Group reported a loss after tax of £1.7m (2017: £10.3m) equating to a reported loss per share of 0.54p (2017: loss per share of 3.26p).

A detailed review of each of the operating businesses' normalised results are set out below.

Normalised divisional results
The table below provides an analysis of the 'normalised' results for the Group for the 12-month period to 31 December 2018. Management believes that by removing the impact of non-cash and other accounting adjustments, the normalised results provide a clearer view of the underlying performance of the Group. Note that the 2017 results include four months' contribution from George Banco that was acquired on 17 August 2017 and have not been restated to reflect the adoption of IFRS 9, a new accounting standard covering financial instruments that replaces *IAS 39: Financial Instruments: Recognition and Measurement* (see note 3 to the Financial Statements).

Year ended 31 December 2018 Normalised[1]	Branch-based lending £'000	Guarantor loans £'000	Home credit £'000	Central costs £'000	NSF plc £'000
Revenue	**79,579**	**21,748**	**65,175**	**–**	**166,502**
Other operating income	1,397	229	–	–	1,626
Modification loss	(482)	–	–	–	(482)
Impairments	(17,099)	(4,342)	(21,247)	–	(42,688)
Revenue less impairments	**63,395**	**17,635**	**43,928**	**–**	**124,958**
Admin expenses	(36,488)	(9,983)	(37,214)	(5,397)	(89,082)
Operating profit	**26,907**	**7,652**	**6,714**	**(5,397)**	**35,876**
Finance cost	(12,778)	(5,833)	(2,461)	(35)	(21,107)
Profit before tax	**14,129**	**1,819**	**4,253**	**(5,432)**	**14,769**
Taxation	(2,612)	(645)	(774)	834	(3,197)
Profit after tax	**11,517**	**1,174**	**3,479**	**(4,598)**	**11,572**
Normalised earnings per share					**3.70p**
Dividend per share					**2.60p**

Year ended 31 December 2017 Normalised[1]	Branch-based lending £'000	Guarantor loans £'000	Home credit £'000	Central costs £'000	NSF plc £'000
Revenue	60,937	8,078	50,741	–	119,756
Other operating income	1,926	–	–	–	1,926
Impairments	(11,654)	(1,365)	(15,776)	–	(28,795)
Revenue less impairments	51,209	6,713	34,965	–	92,887
Admin expenses	(28,555)	(3,965)	(31,863)	(4,820)	(69,203)
Operating profit	22,654	2,748	3,102	(4,820)	23,684
Finance cost	(7,051)	(2,029)	(1,299)	(102)	(10,481)
Profit before tax	15,603	719	1,803	(4,922)	13,203
Taxation	(3,146)	(130)	88	875	(2,313)
Profit after tax	12,457	589	1,891	(4,047)	10,890
Normalised earnings per share					3.44p
Dividend per share					2.20p

Reconciliation of net loan book under IFRS 9

Reconciliation of net loan book under IFRS 9	**2018 Normalised £m**	**2018 Fair value adjustments £m**	**2018 Reported £m**	2017 Normalised £m	2017 Fair value adjustments £m	2017 Reported £m
Branch-based lending	**186.2**	**–**	**186.2**	149.4	4.0	153.4
Guarantor loans	**83.1**	**4.3**	**87.4**	51.6	8.0	59.6
Home credit	**41.0**	**–**	**41.0**	40.2	–	40.2
Total	**310.3**	**4.3**	**314.6**	241.2	12.0	253.1

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

Branch-based lending

Established over 12 years ago, Everyday Loans is now the only significant branch-based provider of unsecured loans in the UK's non-standard finance sector.

UK Market

£197m
2017 receivables outstanding[1]

18%
Estimated compound annual growth ('CAGR') 2014–2017[1]

1%
Estimated share of the UK non-standard consumer credit market in 2017[1]

Our customers[2]

£29,580 p.a.
Average income

£3,335
Typical loan size

90.4%
Average APR

1 L.E.K. Consulting, December 2018 and Company estimates.
2 Company data.

Since becoming part of NSF in 2016, the business has undergone significant investment and structural change, including the rapid expansion of its branch network and investment in the requisite infrastructure to support a much larger and faster growing business.

The branch network has almost doubled under our ownership with 65 branches across the UK at the end of 2018. This increased capacity has helped to grow the active customer base which rose by 30% in 2018 to 61,200 (2017: 47,000) as well as the net loan book, up 25% to £186.2m (2017: £149.4m). Key drivers for the business include network capacity, lead volume and quality, network productivity and tight management of impairment. A summary of our progress on each of these drivers is highlighted below.

Network capacity – For a new branch to succeed we look for areas of population with at least 70,000 adults matching our desired customer type. In areas with sufficient lead volumes, an additional branch or headcount means we can start to convert more leads into loans. Whilst the up-front investment and associated infrastructure costs mean that new branches typically take 11–12 months to break-even, within three to five years of opening we would expect a mature branch to generate annual operating profit of between £0.8m and £1.0m, before central costs. Our most successful branch is already generating profits above this range, providing a real-life example of what can and is being achieved. As well as increasing our overall capacity, additional branches can also help to increase conversion by reducing the distance that customers have to travel to a branch and by reducing the time taken by the network to respond to an application.

Lead volumes and quality – As well as increasing capacity with more branches, we also sought to ensure a continued flow of high-quality leads, that once through our initial screening criteria, can be passed on to the branch network. Having processed over one million leads in 2017, this increased to over 1.6 million in 2018, an increase of 59%. The majority of this increase came from a concerted effort to deepen our relationship with a discrete number of financial brokers. While the scale of this increase meant that there was a reduction in quality, the number of new borrower applications sent to branch ('ATBs') increased by 17% to 366,000 (2017: 313,700).

Productivity – Opening branches tends to reduce average productivity in the short-term as a new branch tends to be sub-scale in terms of numbers of customers and size of loan book and also because new staff take time to match the performance of their more experienced colleagues. We aim to minimise this risk by recruiting new managers from within the network and through a rigorous recruitment process for more junior staff followed by an intensive induction and training programme – the objective being that when a new staff member arrives in the branch, they are able to write and process a new loan application and can contribute from day one. During 2018 we wrote 37% more loans than in 2017 reaching 44,841 in total (2017: 32,668), and achieved an improved conversion rate on new borrower applications to branch of 9.0% (2017: 7.3%).

Delinquency management – With 12 years of customer data, across a broad range of customer types, Everyday Loans has developed a highly robust underwriting process, evidenced by an impressive track record of managing impairment within a tight range since the financial crisis. Having augmented our collections tools and improved our overall contact strategy during 2018, impairment as a percentage of average net receivables increased slightly to 10.1% (2017: 9.5%) but remained stable relative to normalised revenue at 21.5% (2017: 21.5%). Whilst we continue to seek further improvements in impairment, we are being careful to ensure that any reductions are not at the expense of business volume, overall profitability or the delivery of good customer outcomes.

2018 results

Normalised revenue increased by 31% to £79.6m (2017: £60.9m) driven by the increased capacity and lead volumes outlined above as well as by an improved performance from branches opened in 2016 and 2017. Fair value adjustments to revenue reduced to £4.0m (2017: £11.9m) resulting in reported revenue of £75.6m (2017: £49.1m). A change in the way that rescheduled loans are accounted for resulted in a small increase to revenue, off-set by a modification loss of £0.5m (2017: £nil). Other operating income of £1.4m (2017: £1.9m) arose from the sale of a small, non-performing loan portfolio. While increased business volumes meant that the absolute level of impairments increased under IFRS 9 to £17.1m (2017: £11.7m), on a like-for-like basis, the rate of impairment as a percentage of normalised revenue was stable versus the prior year and remains within our previous guidance of 20–22% – see glossary of alternative performance measures and key performance indicators in the Appendix.

Opening 12 new branches required significant investment, in premises and associated infrastructure as well as on the recruitment and training of new staff. This rate of expansion was a drag on profit growth in 2018, something that should not be repeated with our more modest plan for seven new branches in 2019. The total number of full-time employees at the year-end was 406 (2017: 307), an increase of 32%. As a result, administrative expenses increased to £36.5m (2017: £28.6m) equivalent to 46% of normalised revenue (2017: 44%). The net impact of all of these movements was that normalised operating profit increased by 19% to £27.0m (2017: £22.7m) while reduced amortisation charges meant that reported operating profit increased by 112% to £22.9m (2017: £10.8m). There were no exceptional costs incurred in 2018 (2017: £5.3m) while the prior year total related to the refinancing of the Everyday Loans bank facilities and restructuring costs.

Higher finance costs of £12.8m (2017: £7.1m) were driven by strong loan book growth and a full-year's impact of the increased average cost of the Group's new debt arrangements with the net result that normalised profit before tax decreased by 10% to £14.1m (2017: £15.6m). The absence of any amortisation of acquired intangibles meant that reported profit before tax increased substantially to £10.2m (2017: loss of £1.6m).

Year ended 31 December	**2018 Normalised[1] £'000**	**2018 Fair value adjustments and exceptional items £'000**	**2018 Reported £'000**
Revenue	**79,579**	**(3,958)**	**75,621**
Other operating income	1,397	–	1,397
Modification loss	(482)	–	(482)
Impairments	(17,099)	–	(17,099)
Revenue less impairments	**63,395**	**(3,958)**	**59,437**
Admin expenses	(36,488)	–	(36,488)
Operating profit	**26,907**	**(3,958)**	**22,949**
Exceptional items	–	–	–
Profit before interest and tax	**26,907**	**(3,958)**	**22,949**
Finance cost	(12,778)	–	(12,778)
Profit before tax	**14,129**	**(3,958)**	**10,171**
Taxation	(2,612)	752	(1,860)
Profit after tax	**11,517**	**(3,206)**	**8,311**

Year ended 31 December	2017 Normalised[1] £'000	2017 Fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	2017 Reported £'000
Revenue	60,937	(11,874)	49,063
Other operating income	1,926	–	1,926
Impairments	(11,654)		(11,654)
Revenue less impairments	51,209	(11,874)	39,335
Admin expenses	(28,555)	–	(28,555)
Operating profit	22,654	(11,874)	10,780
Exceptional items	–	(5,290)	(5,290)
Profit before interest and tax	22,654	(17,164)	5,490
Finance cost	(7,051)	–	(7,051)
Profit before tax	15,603	(17,164)	(1,561)
Taxation	(3,146)	3,274	128
Profit after tax	12,457	(13,890)	(1,433)

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

IFRS 9 key performance indicators

With little change to the shape of the loan book, there was only a slight change in revenue yield which increased to 46.8% (2017: 44.0%) and so revenue growth was driven largely by loan book growth. As noted above, despite strong growth in the loan book and an influx of new staff, the strength of our underwriting and collections processes meant that impairment remained under tight control at 21.5% of revenue (2017: 21.5%), feeding through into an increased risk adjusted margin of 36.7% (2017: 34.6%).

> *"Impairment remained stable at 21.5% of normalised revenue (2017: 21.5%)*
>
> **Nick Teunon**
> Chief Financial Officer

The investment in 12 new branches together with associated costs of recruitment, training and other costs meant that the normalised operating profit margin was slightly lower at 33.8% (2017: 34.8%) but the return on asset increased to 15.8% (2017: 15.3%).

Year ended 31 December IFRS 9 Key Performance Indicators[1]	**2018 Normalised**	2017 Normalised
Number of branches	**65**	53
Period end customer numbers (000)	**61.2**	47.0
Period end loan book (£m)	**186.2**	149.4
Average loan book (£m)	**170.0**	138.3
Revenue yield (%)	**46.8**	44.0
Risk adjusted margin (%)	**36.7**	34.6
Impairments/revenue (%)	**21.5**	21.5
Impairment/average loan book (%)	**10.1**	9.5
Operating profit margin (%)	**33.8**	34.8
Return on asset (%)	**15.8**	15.3

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

Plans for 2019

The fundamentals are positive with the demand for non-standard credit continuing to be strong: there are very few profitable direct competitors; there are no other branch-based lenders seeking to reach our customers; and the Group has access to significant long-term debt funding. Our plan for 2019 is to continue to drive loan book growth whilst retaining a tight grip on impairment by executing the following initiatives:

Branch openings – we now see an opportunity to have somewhere between 100 and 120 branches over the next five years. Having opened 29 new branches since April 2016, we plan to expand at a more modest rate than in the past thereby allowing the benefit of annual growth to flow through to profits more quickly. We expect to open somewhere between five and ten branches each year for the foreseeable future and have identified seven new branches to open during the first half of 2019.

Lead management – we processed over 1.6 million leads in 2018, an increase of 59% versus 2017. Thanks in part to our own efforts, the broker channel provided the bulk of this increase and whilst we believe that there is scope to grow broker volumes further, we are also focused on continuing to grow volumes across other channels whilst ensuring we maintain a tight control on the quality and cost of customer acquisition.

Productivity gains – our bespoke recruitment, induction and training programmes have been invaluable in helping to maintain productivity during a period of rapid expansion. We will continue to seek productivity gains through additional training and sharing of best practice, improved management information and systems and by greater automation/centralisation of certain administration tasks in the branches. Having added 176 new staff since 2016, we will look to extract further productivity gains from them in 2019 as their collective performance improves with greater experience, bolstered by additional training.

Delinquency management – further enhancements to our contact strategy and the roll-out of a customer-led automated payments system across the network should both help to maintain our strong delinquency performance.

The Offer to acquire Provident, if successful, is expected to provide significant opportunities for our branch-based lending business. Further details can be found in the Offer document published on 9 March 2019 and which is available on the Group's website, www.nsfgroupplc.com.

Guarantor loans

Our guarantor loans division made excellent progress in 2018, driven by strong demand and an improved operational performance.

UK Market

£658m
2017 receivables outstanding[1]

37.5%
Estimated CAGR 2014–2017[1]

4%
Estimated share of the UK non-standard consumer credit market in 2017[1]

UK Customers

£26,100 p.a.
Average net income[2]

£3,940
Typical loan size[2]

1 L.E.K. Consulting, December 2018 and Company estimates.
2 FCA: High-Cost Credit Review Technical Annex 1.

The size of the UK guarantor loans market is continuing to grow rapidly and L.E.K. Consulting estimates that the value of outstanding net receivables at the end of 2017 had reached £658m, a compound annual growth rate of 37.5% since 2014. Whilst estimates for the size of the market in 2018 are not yet available, taking the size of our own net loan book and that of the market leader at the end of December 2018 would imply it is now likely to be closer to £1bn.

Most customers apply online, often via a broker, or by phone. However, unlike our other two divisions, the presence of a guarantor means we are happy to lend to a customer without first meeting them face-to-face. After having passed an initial credit check, both borrower and guarantor are contacted by phone and each is assessed for their creditworthiness and ability to afford the loan. In addition, the guarantor's role and responsibilities are clearly explained and recorded. This is to ensure that while the borrower is primarily responsible for making the repayments, both the borrower and the guarantor (in the event of default) are both clear about their obligations and are also capable of repaying the loan. The presence of a suitable guarantor means that, in most circumstances, an applicant with a thin or impaired credit file is able to borrow at a much lower rate of interest than if they had taken out the loan on their own.

Loan volumes increased by 71% to £65m (2017: £38m) whilst the quality of leads improved with an increasing proportion of leads passing through our internal scorecard (32% were approved in principle versus 27% in 2017). This helped to improve our conversion rate of applications into loans. Our continued investment in training and systems were key factors in this effort and conversion increased as a result with a record number of 17,393 loans written for a total value of £65m during the year (2017: 10,766 loans and £38m respectively). We continued to maintain a healthy balance between new and existing customers of approximately 64:36 (2017: 62:38) with the result that customer numbers grew by 44% to 25,100 (2017: 17,400).

This was delivered whilst at the same time achieving a number of operational milestones.

2018 Divisional overview *continued*

Move to a single loan management platform – all new loans for both George Banco and TrustTwo are now being written onto one platform, a complex but important step that has improved the quality of management information and over time will result in cost savings.

Development of a more tailored customer journey – with a single loan management system in place we can now begin the final step towards our target operating model: a seamless lending and collecting process across both brands using a common lending approach but tailored for different customer journeys depending on a variety of factors such as channel, risk profile of the applicant and guarantor and the size of the loan. This should be in place during 2019.

Maintain a well-balanced channel mix – we have continued to build on the Group's existing relationships to help maintain a strong presence in the important broker market whilst also ensuring a healthy balance of leads and loans written through other channels.

New premises in Trowbridge – George Banco moved to new premises in Trowbridge in October 2018. The new office, which was secured at a reduced cost from the previous location, has provided additional capacity for further expansion.

Harmonised collections – having centralised our collections expertise in Trowbridge during the fourth quarter of 2018 we now have a consistent approach across both brands and hope that this may help as we strive to extract some improvements in delinquency performance in 2019.

The result was that the net loan book increased by 61% to reach £83.1m at 31 December 2018 (2017: £51.6m). This was well ahead of our internal target of 20% annual loan book growth and represents a total increase of over 90% since we acquired George Banco in August 2017.

2018 results

The results for 2018 and 2017 are not strictly comparable as 2018 includes a full period of George Banco while the 2017 results include four and a half months of George Banco which was acquired on 17 August 2017. In addition, the 2017 results have not been restated for the introduction of IFRS 9 which was adopted from 1 January 2018.

Significant loan book growth, together with a full period's contribution from George Banco meant that normalised revenue increased by 169% to £21.7m (2017: £8.1m). Reported revenue was impacted by a marked increase in the fair value adjustment to revenue reflecting a full period of the fair value unwind that totalled £3.7m (2017: £0.1m).

A full period of George Banco expenses, including an accounting charge for deferred consideration payable to vendors who remained as employees of George Banco of £1.4m (2017: £nil), the addition of 31 new staff and increased lending volumes together meant that administration costs increased to £10.0m (2017: £4.0m) with the result that normalised operating profit increased to £7.7m (2017: £2.7m).

Higher finance costs of £5.8m (2017: £2.0m) were driven by strong loan book growth and the impact for a full period of the terms of the new debt arrangements that were put in place at the time of the George Banco acquisition. The net result was that normalised profit before tax reached £1.8m (2017: £0.7m). The absence of any exceptional items (2017: £0.2m) meant that reported loss before tax was £1.9m (2017: profit of £0.4m) as a result of the £3.7m fair value unwind that reduced reported revenue (2017: nil).

Year ended 31 December 2018	2018 Normalised[1] £'000	2018 Fair value adjustments and exceptional items £'000	2018 Reported £'000
Revenue	**21,748**	**(3,720)**	**18,028**
Other income	229	–	229
Impairments	(4,342)	–	(4,342)
Revenue less cost of sales	**17,635**	**(3,720)**	**13,915**
Admin expenses	(9,983)	–	(9,983)
Operating profit	**7,652**	**(3,720)**	**3,932**
Exceptional items	–	–	–
Profit before interest and tax	**7,652**	**(3,720)**	**3,932**
Finance cost	(5,833)	–	(5,833)
Profit/(loss) before tax	**1,819**	**(3,720)**	**(1,901)**
Taxation	(645)	707	62
Profit/(loss) after tax	**1,174**	**(3,013)**	**(1,839)**

Year ended 31 December 2017	2017 Normalised[1] £'000	2017 Fair value adjustments and exceptional items £'000	2017 Reported £'000
Revenue	8,078	(111)	7,967
Impairments	(1,365)	–	(1,365)
Revenue less impairments	6,713	(111)	6,602
Admin expenses	(3,965)	–	(3,965)
Operating profit	2,748	(111)	2,637
Exceptional items	–	(230)	(230)
Profit before interest and tax	2,748	(341)	2,407
Finance cost	(2,029)	–	(2,029)
Profit before tax	719	(341)	378
Taxation	(130)	65	(65)
Profit after tax	589	(276)	313

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

IFRS 9 Key performance indicators
Even though George Banco was not acquired until 17 August 2017, the 2017 KPIs below have been adjusted to include George Banco for a full 12 months. A shift in business mix resulted in a small decrease in revenue yield and in risk adjusted margin that reduced to 25.8% (2017: 29.3%). The strong rate of growth and continued investment in the business resulted in a return on assets of 11.3% which was down on the previous year but we remain confident that our medium-term target of 20% can be reached as the business continues to grow strongly.

Year ended 31 December IFRS 9 Key Performance Indicators[1]	2018 Normalised	2017 Normalised
Period end customer numbers (000)	**25.1**	17.4
Period end loan book (£m)	**83.1**	51.6
Average loan book (£m)	**67.6**	42.4
Revenue yield (%)	**32.2**	34.7
Risk adjusted margin (%)	**25.8**	29.3
Impairment/revenue (%)	**20.0**	15.5
Impairment/average loan book (%)	**6.4**	5.4
Operating profit margin (%)	**35.2**	37.8
Return on assets (%)	**11.3**	13.1

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

Plans for 2019
The following initiatives are already underway for 2019:

Complete transition to target operating model – with a single loan management platform in place we have begun to implement a common booking interface for both brands. This will, *inter alia*, enable any of our customer account managers to be able to complete a loan transaction for either of our two brands (or indeed additional brands should we decide to introduce them) and from either of our two locations, making it much easier to optimise staffing levels. The new front end will also provide a single, detailed view of all KPIs across both brands, enabling the ability to fine-tune all aspects of the customer journey in real-time.

Increase capacity – with space now available for up to 40 additional staff across both our locations in Trowbridge and Bourne End, we plan to continue to increase headcount, in line with business volumes.

Further productivity improvements – as well as increased capacity from more staff, we also believe that there is scope to drive additional volume as a result of further productivity improvements from a variety of initiatives such as better use of technology, increased training and sharing of best practice.

New products – we are exploring the opportunity for a more flexible, risk-based pricing approach – one that will broaden our product offering and increase the size of our potential customer pool.

We have a strong position in the market, one that is growing quickly. As we continue to build scale and take market share, we remain on track to meet our target of 20% annual loan book growth and a 20% return on assets.

The Offer to acquire Provident, if successful, is expected to provide significant opportunities for our guarantor loans business. Further details can be found in the Offer document that was published on 9 March 2019 and which is available on the Group's website, www.nsfgroupplc.com.

Home credit

The past two years have seen an unprecedented period of structural change in the home credit industry following a major restructuring at the market leader in 2017, the effects of which continued to resonate in 2018.

UK Market

£1.1bn
Receivables outstanding[1]

>400
Number of licensed firms[1]

1.6m
Consumers with outstanding debt[1]

5%
Estimated share of the UK non-standard consumer credit market in 2017[2]

UK Customers

£15,500 p.a.
Consumer median income[1]

£250–£750
Typical loan size[3]

1 FCA: CP18/12 High-cost Credit Review: Consultation on rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit. Discussion on rent-to-own pricing, May 2018.
2 L.E.K. Consulting, December 2018 and Company estimates.
3 FCA: Sector Views 2017.

At the same time, we were transforming our business through a significant investment in technology, one that has improved both our lending and collections process as well as enhanced the reliability and security of our IT infrastructure.

The financial impact of having recruited a large number of highly experienced self-employed agents and management staff in 2017 rolled through into 2018. We ended the year with 897 agencies (2017: 1,005), a decrease from the previous year, reflecting a return to the natural rate of agent attrition and our focus on removing agencies that were sub-scale. However, as newly recruited agents sought to increase the size of their individual loan portfolios, the size of the net loan book (before fair value adjustments) at 31 December 2018 was £41.0m, up 2.0% versus the previous year (2017: £40.2m).

Our transition away from a purely paper-based lending and collections-based process to one that can now be done entirely using an agent's mobile device is now complete such that 98% of all loans are now processed using the lending app. During 2018 we enhanced the suite of applications that are helping to improve productivity and enhance management control and oversight. This included the automation of a series of previously manual processes, freeing up managers to spend more time with agents and focus on customer-related issues. We also developed the Journey Management Performance Report (or 'JMPR') that provides a range of real-time performance metrics on every individual customer and for every agent, by location and region. This new tool has become an invaluable aid for managers, enabling them to identify any customer issues at a granular level and then address them much more quickly.

As well as improving our operational procedures and performance, we have also significantly de-risked our technology infrastructure having migrated our previous data centre to Microsoft Azure. This cloud-based solution has unlocked a series of new capabilities for future technologies, reduced costs and provided much greater protection for our data.

2018 results

Normalised revenue increased by 28% to £65.2m (2017: £50.7m) and there was no adjustment for reported revenue as the unwind of the fair value adjustment made to the carrying value of the loan book at acquisition in 2015 is now complete.

Higher impairment of £21.2m (2017: £15.8m) reflected the move to IFRS 9 but at 32.6% of normalised revenue was below our guided range of 33–37%. Increased administration costs reflected the full-year impact of the expansion undertaken in 2017 and the average number of staff in 2018 was up 18% at 361 (2017: 305), we ended the year with a total of 331 staff (2017: 350) as we sought to right-size our infrastructure following a period of rapid expansion. Normalised operating profit increased by 116% to £6.7m (2017: £3.1m), benefiting from the significant reduction in temporary additional commission that had been paid to newly recruited agents during 2017 and despite the impact of IFRS 9.

There were no exceptional costs in the year, the figure for the prior year arose from the refinancing of the Loans at Home bank facility. The net result was that normalised profit before tax increased by 138% to £4.3m (2017: £1.8m). Increased finance costs of £2.5m (2017: £1.3m), reflected the growth in loan book and a full-year impact of the increased cost of the Group's long-term debt arrangements that were put in place in August 2017.

Year ended 31 December 2018	2018 Normalised[1] £'000	2018 Fair value adjustments and exceptional items £'000	2018 Reported £'000
Revenue	**65,175**	**–**	**65,175**
Impairments	(21,247)	–	(21,247)
Revenue less impairments	**43,928**	**–**	**43,928**
Admin expenses	(37,214)	–	(37,214)
Operating profit	**6,714**	**–**	**6,714**
Exceptional items	–	–	–
Profit before interest and tax	**6,714**	**–**	**6,714**
Finance cost	(2,461)	–	(2,461)
Profit before tax	**4,253**	**–**	**4,253**
Taxation	(774)	–	(774)
Profit after tax	**3,479**	**–**	**3,479**

Year ended 31 December 2017	2017 Normalised[1] £'000	2017 Fair value adjustments and exceptional items £'000	2017 Reported £'000
Revenue	50,741	–	50,741
Impairments	(15,776)	–	(15,776)
Revenue less impairments	34,965	–	34,965
Admin expenses	(31,863)	–	(31,863)
Operating profit	3,102	–	3,102
Exceptional items	–	(467)	(467)
Profit before interest and tax	3,102	(467)	2,635
Finance cost	(1,299)	–	(1,299)
Profit before tax	1,803	(467)	1,336
Taxation	88	91	179
Profit after tax	1,891	(376)	1,515

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

IFRS 9 key performance indicators

The increased number of quality customers taking out larger, longer-term loans meant that revenue yield reduced slightly to 171.5% (2017: 178.4%). However, the increased quality of our loan book was reflected in the further reduction in impairment which fell to 32.6% of revenue (2017: 37.6%), which was below our previously guided range of 33–37%. Operating profit margins of 10.3% benefited from the lower impairment and a marked reduction in temporary additional commission paid to those agents recruited in 2017. Return on asset was 17.7%, close to our 20% target.

Year ended 31 December Key Performance Indicators[1]	2018 Normalised	2017 Normalised
Period end self-employed agencies	**897**	1,005
Period end number of offices	**66**	69
Period end customer numbers (000)	**93.8**	104.1
Period end loan book (£m)	**41.0**	40.2
Average loan book (£m)	**38.0**	27.4
Revenue yield (%)	**171.5**	178.4
Risk adjusted margin (%)	**115.6**	111.4
Impairments/revenue (%)	**32.6**	37.6
Impairment/average loan book (%)	**55.9**	67.0
Operating profit margin (%)	**10.3**	(2.7)
Return on asset (%)	**17.7**	(4.8)

1 For definitions see glossary of alternative performance measures in the Appendix.

Plans for 2019

After two years of exceptional expansion, 2019 will be focused on rebalancing the loan book with a return to shorter term loans and on increasing the percentage of quality customers, both of which are expected to result in a more normalised rate of loan book growth of 2–5% per annum.

The benefits of some of the technological improvements mentioned above, coupled with a more modest rate of loan book growth going forward, means we have been able to re-size the management and organisation structure to better suit the scale and growth profile of the business going forward.

The new structure, which was announced internally in January 2019 has kept the agent to business manager ratio at 6:1 and is expected to increase operational efficiency and better align the fixed cost base with future revenue growth.

Each of these initiatives should help us to continue to grow profitability in 2019, albeit at a slower pace than in 2018, and we remain on course to meet our target of a 20% return on assets (see glossary on alternative performance measures in the Appendix) in the medium-term.

On 22 February 2019 we announced a firm offer to acquire Provident Financial plc including an intention to complete a demerger of Loans at Home, to assist with the CMA competition approval process and for Loans at Home to be admitted to trading either on the Main Market (with a standard listing) or on AIM. Although the timing and structure of the Demerger remain subject to further consideration, including by the CMA, it is expected that the Demerger would take place following completion of the offer to acquire Provident. If successful, this would mean that Provident shareholders who participate in the Transaction, as well as existing NSF shareholders, would then receive shares in the newly listed Loans at Home. As the Demerger remains subject to review by the CMA, NSF has reserved the right to change its strategic plans with respect to Loans at Home as described in the Offer announcement, including (without limitation) the timing of the Demerger. Further details can be found in the Offer announcement issued on 22 February 2019 which is available on the Group's website, www.nsfgroupplc.com.

2018 Divisional overview *continued*

Central costs

The increase in normalised administrative expenses to £5.4m (2017: £4.8m), reflected, *inter alia*, increased costs associated with a new 2018 Save as You Earn Scheme plus the full-year cost of the 2017 scheme. The amortisation of acquired intangible assets increased to £8.7m (2017: £7.9m) reflecting a reduced charge for Everyday Loans and a full-year charge for George Banco for the first time. The prior year exceptional item of £0.4m comprised acquisition costs together with the write-off of the remaining balance of capitalised fees referred to above.

Year ended 31 December	2018 Normalised[1] £'000	2018 Amortisation of acquired intangibles and exceptional items £'000	2018 Reported £'000
Revenue	**–**	**–**	**–**
Admin expenses	(5,397)	(8,681)	(14,078)
Operating loss	**(5,397)**	**(8,681)**	**(14,078)**
Exceptional items	–	–	–
Loss before interest and tax	**(5,397)**	**(8,681)**	**(14,078)**
Finance cost	(35)	–	(35)
Loss before tax	**(5,432)**	**(8,681)**	**(14,113)**
Taxation	834	1,649	2,483
Loss after tax	**(4,598)**	**(7,032)**	**(11,630)**

Year ended 31 December	2017 Normalised[1] £'000	2017 Amortisation of acquired intangibles and exceptional items £'000	2017 Reported £'000
Revenue	–	–	–
Admin expenses	(4,820)	(7,897)	(12,717)
Operating loss	(4,820)	(7,897)	(12,717)
Exceptional items	–	(355)	(355)
Loss before interest and tax	(4,820)	(8,252)	(13,072)
Finance cost	(102)	–	(102)
Loss before tax	(4,922)	(8,252)	(13,174)
Taxation	875	1,569	2,444
Loss after tax	(4,047)	(6,683)	(10,730)

1 See glossary of alternative performance measures and key performance indicators in the Appendix.

IFRS 9

The International Accounting Standard Board's introduction of a new accounting standard covering financial instruments became effective for accounting periods beginning on or after 1 January 2018. This standard replaces IAS 39: Financial Instruments: Recognition and Measurement.

The new standard requires that lenders (i) provide for the Expected Credit Loss ('ECL') from performing assets over the following year and (ii) provide for the ECL over the life of the asset where that asset has seen a significant increase in credit risk. As a result, whilst the underlying cash flows from the asset are unchanged, IFRS 9 has the effect of bringing forward provisions into earlier accounting periods. This resulted in a one-off adjustment to receivables, deferred tax and reserves on adoption.

To assist analysts and investors, the 2017 full-year results included a separate disclosure detailing an estimate of the expected impact of IFRS 9 on the closing balance sheet for 2017 (and therefore the opening balance sheet for 2018). The actual audited figures for 2017 are slightly different from the previously published estimates and a reconciliation between the two is shown in the next table.

IFRS 9 balance sheet	IAS 39[2] £m	IFRS 9 estimated 2017 adjustment £m	IFRS 9 audited 2017 adjustment £m	IFRS 9 2018 opening balance sheet £m
Normalised net loan book:[1]				
– Branch-based lending	153.8	(1.7)	(4.4)	149.4
– Guarantor loans	51.1	(0.9)	0.5	51.6
– Home credit	51.2	(10.6)	(11.1)	40.2
Total net loan book	256.1	(13.2)	(15.0)	241.2
Other	(14.7)	2.5	2.3	(12.4)
Net assets	241.4	(10.7)	(12.7)	228.8

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 The 2017 comparatives have been adjusted so that unamortised broker commissions of £8.26m are included within net loan book.

The adoption of IFRS 9 resulted in a reduction in receivables of £15.0m at 31 December 2017, which net of deferred tax, resulted in a reduction in net assets of £12.7m. Whilst the particularly strong loan book growth in home credit during 2017 meant that it experienced the largest adjustment to the net loan book, net assets and earnings, it is important to note that cash flow remains unchanged and IFRS 9 only changes the timing of profits made on a loan.

There has been no change to the Group's underwriting process and our scorecards are unaffected by the change in accounting. The total cash flows from a loan are the same under both IAS 39 and IFRS 9 and the cash generation over the life of a loan remains unchanged. The calculation of the Group's debt covenants are unaffected by IFRS 9, as they are based on accounting standards in place at the time they were set.

Principal risks
The principal risks facing the Group are:

- **Conduct** – risk of poor outcomes for our customers or other key stakeholders as a result of the Group's actions;
- **Regulation** – risk through changes to regulations or a failure to comply with existing rules and regulations;
- **Credit** – risk of loss through poor underwriting or a diminution in the credit quality of the Group's customers;
- **Business strategy** – risk that the Group's strategy fails to deliver the outcomes expected;
- **Business risks:**
  - **operational** – the Group's activities are large and complex and so there are many areas of operational risk that include technology failure, fraud, staff management and recruitment risks, underperformance of key staff, taxation, health and safety as well as disaster recovery and business continuity risks;
  - **reputational** – a failure to manage one or more of the risks above may damage the reputation of the Group or any of its subsidiaries which in turn may materially impact the future operational and/or financial performance of the Group;
  - **cyber** – increased connectivity in the workplace coupled with the increasing importance of data and data analytics in operating and managing consumer finance businesses means that this risk has been identified separately from operational risk;
- **Liquidity** – whilst the Group is well-capitalised with £285m of committed debt facilities until August 2023 and a revolving credit facility for a further £45m, prevailing uncertainty in global financial markets means that there is a risk that the Group may be unable to secure sufficient finance in the future to execute its long-term business strategy.

These risks may change if the Offer for Provident Financial plc were to be successful.

On behalf of the Board of Directors.

Nick Teunon
Chief Financial Officer
14 March 2019

A business with strong values

Whilst still a relatively young company, NSF has nevertheless adopted a cultural approach that is more akin to that of a much larger and long-established business.

Our cultural approach

Our approach
Our approach to corporate and social responsibility is embodied within our business culture and overall approach to stakeholder management. Each of these dictate not just what we do but also the way that we do it and have been forged by the extensive experience of the Group's Board of Directors and senior management team. Together, they share the view that sustainability and operational resilience are vitally important factors in driving long-term financial returns and are wholly consistent with our strategy to be a leader in each of our chosen markets (see 'Our strategy and KPIs' on pages 24 to 29).

At the heart of our business model (see pages 10 to 11) is the strong relationship that we seek to establish with our customers, one that is normally established face-to-face, itself a process that forms a key part of the lending process in two of our three divisions. 'Providing a helping, but firm hand' is a philosophy that is shared by each of our businesses and will help us to achieve our long-term financial goals.

However, we also recognise that the Group's ability to create long-term value can be affected, positively as well as negatively by the way that we manage a broader group of stakeholders. Throughout this Annual Report you will read examples of how our business strategy and performance against that strategy have affected key stakeholders and we intend to continue to provide further updates in future reports.

Why are our APRs so high?

In order to help answer this question, we need to explain what happens to the revenue we generate. Compared to lenders that are focused on serving only consumers with higher credit scores, our APRs can seem high. For our highest APR products (in home credit), this is often driven by the fact that loans tend to be for short periods of less than one year and because they tend to be for small amounts, while the costs of delivering and collecting that loan face-to-face are relatively high – in other words, while our business model (see page 10) is effective in reaching large numbers of customers that are on low or variable incomes or that have an impaired or thin credit history, it is expensive to operate.

The chart shown below illustrates what happens to NSF Group revenue, based upon the 2018 normalised results. Whilst each of our three businesses has different dynamics, we have sought to provide an NSF overview as follows:

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 tend to result in higher impairments and so when lending to such customers, lenders look to charge higher APRs.

People costs

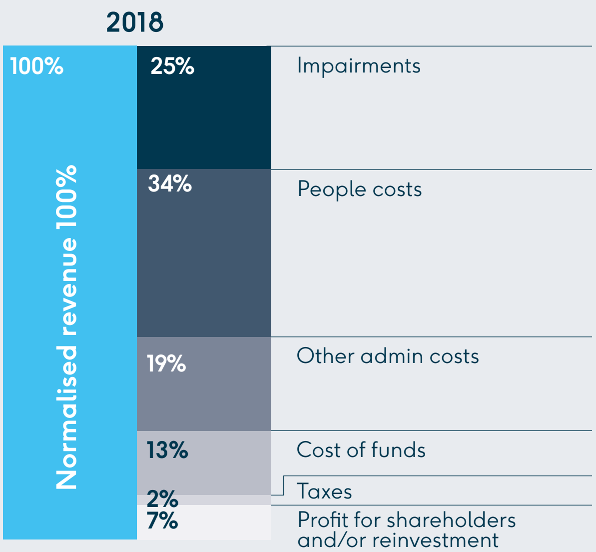
Staff and self-employed agent costs are significant given the scale of our face-to-face networks through which we engage with our customers, either in a branch, or in their home.

Other admin costs

Property, IT, compliance and other infrastructure and support-related costs are significant for branch-based lending and home credit, requiring higher APRs in order to meet costs and deliver an adequate financial return for investors. Business models with lower infrastructure costs may be able to charge lower APRs if they can also achieve low rates of impairment.

Cost of funds and taxes

Whilst we have sourced significant equity capital, the majority of our loan book is funded by debt facilities provided by third-party credit funds. After paying taxes due, the balance is used to reward shareholders through dividend payments, share buy-backs and by reinvesting funds to deliver future growth.



Customers

Our focus is on delivering affordable credit to those consumers that need it. As we do so, ensuring great outcomes for our customers is a key objective that is embodied within all of our policies and procedures, our training programmes as well as our incentive arrangements – it is the way we run our business. We don't just rely on our internal processes to deliver and so regularly survey our customers to find out how we are performing and how we can improve. We also monitor and investigate thoroughly any complaints we receive so that we can learn from our mistakes. (see 'Our strategy and KPIs' on pages 24 to 29).

Employees and self-employed agents

As a people business, we have continued to invest in our workforce and this lies at the heart of our business strategy. As well as a proper induction process, we invest in extensive and tailored training modules for all new joiners so that they can make a contribution as soon as they start work. We also invest in a regular programme of training for existing staff and self-employed agents. Online training programmes provide us with a perfect audit trail for each participant, providing oversight on which modules have been completed and the achievement level attained.

As well as providing staff with a useful repository for policies and procedures, our Group-wide intranet has become a key communication channel for our people and in February 2019 we were commended by the Employee Share Ownership Plan Centre for the way we disseminated information about our new share save scheme across the Group. However, candid and regular communication must also be backed-up by the required level of support as and when staff need it, particularly at times of personal stress and difficulty. During 2018, we signed the TUC's 'Dying To Work' Charter, ensuring that any employee battling terminal illness has adequate employment protection and has their death in service benefits protected for the loved ones they leave behind. By demonstrating that we care deeply about our people we believe we can instil a similar sense of responsibility in each of them for all of our 180,000 customers.

John van Kuffeler signing the Dying to Work charter in 2018.

Proportion of males and females receiving a bonus payment

2018

78.5%
Male

66.9%
Female

2017

71.6%
Male

66.4%
Female

1 A positive percentage figure indicates that typically female employees have lower pay or bonuses than male employees.
2 Overall mean and median gender pay and bonus gap based on a snapshot date of 5 April 2018 and 2017 (hourly pay) and bonus paid in the 12 months to 5 April 2018 and 2017.

Gender mix

As an equal opportunities employer, our workforce has a healthy mix of gender. 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:

2018	Male	Female	Total
Number of Company Directors	5	1	6
Number of senior managers (excluding Executive Directors), Directors of subsidiary businesses and heads of function	29	13	43
Total number of employees	**473**	**390**	**863**

2017	Male	Female	Total
Number of Company Directors	5	1	6
Number of senior managers (excluding Executive Directors), Directors of subsidiary businesses and heads of function	36	12	48
Total number of employees	**406**	**345**	**751**

Gender Pay

As we did in last year's report, below we have summarised our gender pay gap in accordance with the UK Government regulations for gender pay gap reporting. Our overall mean and median gender pay and bonus gap reduced versus last year based on a snapshot date of 5 April 2018 (hourly pay) and bonus paid in the 12 months to 5 April 2018. The figures for 2018 are as follows (the comparative figures for 2017 are also included for reference):

Pay and Bonus – difference between males and females[1]

2018[2]	Mean	Median
Hourly pay gap	24.08%	12.50%
Bonus pay gap	13.99%	1.56%

2017[2]	Mean	Median
Hourly pay gap	26.6%	12.6%
Bonus pay gap	35.6%	(2.6%)

Why do we have a gap?

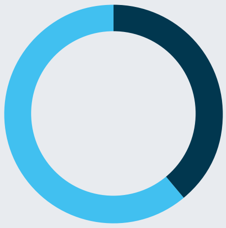
The calculation behind the gender pay gap is not the same as equal pay. As with last year, the underlying reason behind the gap is predominantly due to the structure of our workforce where there is a lower representation of women in senior leadership roles within our business (approximately 71% of senior roles were held by men (2017: 76%) and 29% were held by women (2017: 24%) as at the snapshot date).

As can be seen in the quartile graphs opposite, the gender mix shifts as we move towards the upper (higher pay) quartiles indicating that our mean gaps are significantly impacted by these imbalances. We recognise that female representation is lower in the upper quartiles and are committed to increasing the number of women in these bands.

Gender mix by pay quartile (quartile 1 being the lowest and quartile 4 being the highest).

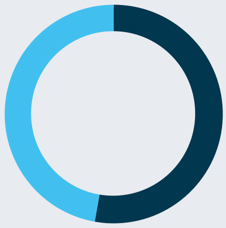
2018

Quartile 1



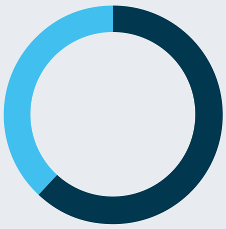
- Male 39%
- Female 61%

Quartile 2



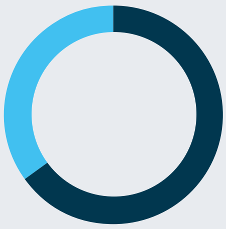
- Male 53%
- Female 47%

Quartile 3



- Male 62%
- Female 38%

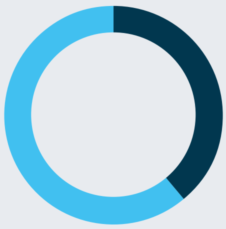
Quartile 4



- Male 65%
- Female 35%

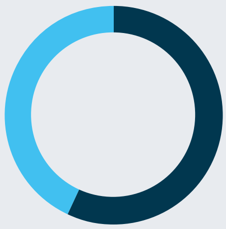
2017

Quartile 1



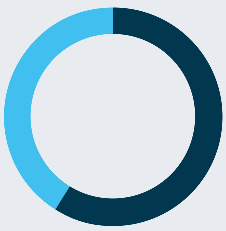
- Male 39%
- Female 61%

Quartile 2



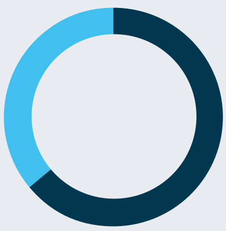
- Male 57%
- Female 43%

Quartile 3



- Male 59%
- Female 41%

Quartile 4



- Male 64%
- Female 36%

Whilst we acknowledge we have a gender pay gap, we're clear on why it exists and are focused on the steps we need to take to close the gap.

We are confident that we do not have any processes or practices where people are being paid differently due to their gender.

The gap in our mean figure relating to bonuses is due to the same reasons that we have an hourly gender pay gap: our senior workforce, which has a different bonus structure from the rest of the workforce, also has a greater proportion of male employees. The equality of our pay structure is reflected in our median pay and median bonus figures which are not distorted by very large or small pay and bonuses – this shows a much smaller gap between males and females.

How are we addressing the gap?
The Office for National Statistics' 2018 numbers[3] put the mean salary gap at 33.4% for the financial services industry. Whilst we understand our gender profile is typical of many financial services companies across the UK, we are committed to addressing this through a series of actions as follows:

- improving our recruitment targeting to ensure a diverse range of applicants are considered;
- reviewing the structure of our workforce, listening to our employees and improving our policies around diversity;
- actively reviewing decisions around performance, pay and bonuses;
- supporting employees through flexible working and professional development;
- delivering tailored plans to promote gender diversity across the Group; and
- supporting female progression into senior roles.

As well as providing competitive compensation arrangements for both staff and self-employed agents, we also have a Save As You Earn scheme for all eligible Group employees. This scheme enables staff to buy shares in Non-Standard Finance plc in a tax-efficient way and thereby participate in the future success of the Company.

Regulators
We maintain a regular dialogue with the FCA, both as part of the ongoing supervision process as well as at a more strategic level, through periodic face-to-face meetings and by responding to relevant FCA consultations, policy documents and research. We also continue to keep the FCA fully informed regarding the Group's broader strategic plans.

Partners and suppliers
The differing nature of each of our three divisions means that each manages its own relationships with key partners and suppliers. As well as keeping them informed of our business performance through public disclosures, each division maintains a strong relationship through periodic conference calls and face-to-face meetings. Whilst the focus is at divisional level, in a limited number of cases we have been able to make purchases of certain products and services on a Group-wide basis such as insurance.

Providers of funding
The Company keeps shareholders, credit funds 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.nsfgroupplc.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 equity and debt investors on request or via organised investor roadshows supported by the Company's advisers, 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.

Communities, charity and the environment
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 860 staff, 890 self-employed agencies and over 180,000 customers that we serve through a network of over 130 offices across the UK, we are deeply ingrained within the fabric of a number of local communities.

The Group made donations totalling £84,082 to a range of charities in 2018 including The Alzheimer's Society, National Debtline (run by The Money Advice Trust), Loan Smart, Cancer Research, Dorothy House Hospice and JDRF (Juvenile Diabetes Research Foundation). Separately, the Group also sponsored CrXss PlatfXrm, an urban dance, music and arts initiative encompassing an impressive range of artistic partnerships (and featuring over 50 artists that was held in central London in August 2018).

Whilst we are a relatively small company compared with many others, and given the nature of our business, we do not believe that we have a material impact on the environment. However, we are growing fast and are keen to minimise any impact that our activities might have. Having started to capture and record data on CO_2 production from car mileage as well as the volume of water and electricity used during 2017 across all three business divisions, an update is shown below.

	Kg of CO_2 produced	KW hours used	M^3 of water used
2018	**292,500**	**1,299,408**	**55,802**
2017	345,000	667,253	29,389

The increase in electricity and water usage reflect the expanded branch network as well as new office locations for Everyday Loans and Guarantor Loans Division.

3 ONS: Gender Pay Gap in the UK: 2018, 25 October 2018.

Meet the Board

1.

2.

3.

4.

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6.

7.

1. John de Blocq van Kuffeler, 70
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. He is also a former Chairman of the J.P. Morgan Fleming Technology Trust PLC and the Finsbury Smaller Quoted Companies Trust PLC.

External appointments
Non-Executive Chairman of Paratus AMC Limited

2. Nick Teunon, 53
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

3. Miles Cresswell-Turner, 56
Executive Director and CEO of Everyday Loans

Appointed 10 December 2014 **Committees** None

Profile
Before joining NSF, Miles was a partner in Duke Street LLP where he specialised in the finance sector and 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. Miles was appointed Executive Chairman of Everyday Loans in May 2017 and became Chief Executive of Everyday Loans in September 2017.

External appointments
Levana Education Ltd

4. Niall Brooker, 60
Independent Non-Executive Director

Appointed 9 May 2017 **Committees** A/N/R/RC

Profile
Niall has spent 35 years in banking providing him with a wide range of experience in both consumer and wholesale products. His previous roles include being Group Managing Director and CEO of HSBC North America where he worked through the issues in HSBC Finance Corporation and in doing so worked closely with US regulators on these and other matters. Most recently he was CEO of the Cooperative Bank from 2013 to December 2016 having been tasked with rebuilding the capital base, stabilising the operational infrastructure and maintaining the franchise after the problems the bank faced in 2013. Niall has been a member of the College Council at Glenalmond College since 2012 and became Chairman of the Council in August 2017.

External appointments
Chairman Glenalmond College Council

5. Charles Gregson, 71
Non-Executive Chairman

Appointed 10 December 2014 **Committees** A/N/R/RC

Profile
Charles is a highly experienced executive having previously held a number of senior positions in finance. He was Non-Executive Chairman of NEX Group plc, formerly ICAP plc from 1988 to 2 November 2018 when NEX was acquired by the CME Group. Charles was former 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; Non-Executive Director of International Personal Finance plc from 2007 to 2010; Chairman of CPP Group plc; and Chairman 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.

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

6. Professor Heather McGregor CBE, 57
Independent Non-Executive Director

Appointed 10 December 2014 **Committees** A/N/R/RC

Profile
Heather 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, an executive search firm 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 and Non-Executive Director of International Game Technology PLC

7. Sarah Day, 47
Company Secretary

Appointed 27 November 2017

Profile
Sarah qualified as a Chartered Accountant in 1999 having trained with PwC and initially gained experience of the non-standard finance sector via the home credit industry through involvement in external audit.

Sarah joined the Group in August 2016 as Company Secretary of the Group's Home Credit operation, 'Loans at Home', also taking on the role of Financial Controller of the home credit operation.

Prior to joining NSF Group, Sarah worked at Provident Financial plc for 17 years, with varied roles initially working in the International Division (now IPF) with responsibility for the smooth establishment of Finance within overseas operations before moving to Provident UK in 2002. Her roles within Provident covered all aspects of Finance on both the performance and Financial Accounting sides of the function. More recently, Sarah was responsible for UK Tax Compliance for Provident's Consumer Credit Business and more latterly established the UK Consumer Credit Division Governance and Company Secretarial function.

Key to committees:
Audit Committee: A Nomination Committee: N
Risk Committee: RC Remuneration Committee: R Chair:

Director profiles can be found on the Group's website:
http://www.nsfgroupplc.com/about-us/our-leadership

Governance report
for the year ended 31 December 2018

Chairman's Introduction

Dear Shareholder,

I am pleased to present our 2018 Corporate Governance report for the Company which incorporates reports from the Chairs of each of the Audit, Nomination, Remuneration and Risk Committees on pages 60 to 82.

The Board remains 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, throughout 2018 the Board sought to comply with the requirements of the UK Corporate Governance Code 2016 (the 'Code')[1] and in the coming year intends to adopt the revised 2018 Code, where it is practical to do so. This has been achieved within a carefully constructed Governance Framework, incorporating the work and inter-relationship of the Board, its various committees and senior management. This framework was formally adopted at the end of 2018, building on what had already been achieved and has been designed to ensure that good standards of governance operate across all levels of the Group, not just at the plc but also within each of its operating subsidiaries.

The performance of the Board and its various committees are explained in the following sections of this Annual Report. In each of the reports that follow, if a provision of the Code has not been met, the details have been highlighted together with an explanation under the heading: 'Statement of compliance with the Code' on page 53 below.

Whilst the scale and complexity of the Group requires that in executing its business strategy the interests of a broad group of stakeholders are taken into account (see pages 46 to 49), the Board's primary focus is to create long-term value for the Company's shareholders in the form of sustainable capital and dividend growth.

Following the acquisitions that were completed in 2015, 2016 and 2017, 2018 was a year of operational focus and the delivery of strong operating profit growth in all three divisions.

Highlights of the financial year
During 2018, we opened a further 12 new Everyday Loans branches as planned, taking the total number open at 31 December 2018 to 65, an 81% increase since we acquired the business in April 2016. Whilst we plan to continue to open new branches every year for the foreseeable future, this is now likely to be at a more modest pace than in either 2017 or 2018. In guarantor loans, we completed the detailed technical integration of both of the George Banco and TrustTwo brands that are now booking new loans onto a single loan management platform. In home credit, having invested heavily in the scale of our agent network and supporting infrastructure during 2017, 2018 was focused on embedding that investment and transforming the quality and efficacy of our technology infrastructure, both of which have now been achieved.

With further loan book growth across all three divisions during 2018, we took the opportunity to underpin our medium-term growth plans with an additional £70m of debt funding, so that the Group now has total committed facilities of £330m, £285m of which is not due until 2023.

We continued to engage with investors through a comprehensive programme of investor relations including one-on-one meetings, conference calls, results presentations and an analyst visit to Everyday Loans that took place in December 2018. The visit was well-attended and we received positive and encouraging feedback and will continue to hold similar events in the future.

Over the course of the year, we continued to develop our corporate governance framework and formally adopted a Group-wide approach in December 2018. Building on the Board evaluations undertaken internally in 2016 and 2017, the Group engaged Lintstock, an external Board evaluation specialist to undertake an independent review of the performance of the Group Board as well as conduct a data gathering exercise for each of the Group's subsidiary boards to enable in-house conclusions and recommendations to be reached within each subsidiary. This review included an ongoing assessment of both the Group's board structure and the dynamics of the boards of each of the Group's subsidiaries within the overall Group governance structure. As part of this review, focus was given to the potential impact of the revised Corporate Governance Code.

Having completed a review of the recommendations made, the Board has updated its list of actions to be completed. Following the implementation of a robust evaluation programme for each of the Group-level policies and also the approval and launch of a Group-wide Governance Framework in 2018, the Group will assess and monitor both their maturity and effectiveness during 2019.

The Remuneration Committee remains focused on ensuring that it has the capability to both retain and incentivise existing management, as well as attract additional and complementary talent that may be required to fulfil the Group's long-term strategic objectives. During the course of 2018, the Remuneration Committee continued to monitor and evaluate the remuneration schemes in place to ensure they remain appropriate.

The Group 'Save As You Earn' ('SAYE') Share Scheme continues to prove attractive for all staff. The Board is committed to ensuring that colleagues have the opportunity to hold even a small stake in the ultimate parent of the firm where they work, thereby ensuring that participating employees are able to benefit directly from any future success of the Company. To reduce the impact of dilution for existing shareholders, the Board initiated a limited share buy-back programme during 2017 in order to satisfy any future obligations under the Group's SAYE and long-term incentive share plans. This programme concluded in April 2018.

In 2019 we plan to continue to improve our governance principles and processes through a series of actions including by: embedding our governance frameworks and corporate policies; monitoring our progress through the evaluation process outlined above; adopting the revised Corporate Governance Code where it makes sense to do so; and ensuring that the Group continues to develop and grow whilst maintaining and enhancing the good governance practices of which we are proud.

Charles Gregson
Non-Executive Chairman
14 March 2019

1 A copy of the Code is available from the Financial Reporting Council's website: www.frc.org.uk.

NSF is committed to high standards of corporate governance

Statement of compliance with the Code

As mentioned above, whilst Non-Standard Finance plc is not required to comply with the Code, the Board has long-recognised the value from following best practice corporate governance guidance and therefore sought to comply with the Code during the year ended 31 December 2018. The Code can be found on the Financial Reporting Council's website: https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code. The Directors consider that the Company has been in full compliance with the principles of the Code.

Whilst the Board maintains that a high standard of governance was achieved throughout 2018, given the Company's individual circumstances and bearing in mind its size and complexity, as well as the nature of the risks and challenges faced by the Group, the Directors deemed that non-compliance with some of the provisions of the Code was justified. These are highlighted below.

The Company does not comply with provision A.4.1 of the Code. The Board assessed the risk of not appointing a Non-Executive Director to the role of Senior Independent Director and resolved that the formal role was not required due to the relatively small size of the Board. The Company does not believe absence of the role detracts from its ability to comply with principle A.4. 1. The activity normally carried out by a Senior Independent Director is shared between the independent Non-Executive Directors and the Company Secretary.

The Company does not meet provision D.2.1 of the Code, due to the Chairman of the Board also being the Chair of the Remuneration Committee. As explained below, it is recognised that, in accordance with the Code, Charles Gregson was not independent on appointment (A.3.1 – see page 55). However, due to his professionalism, independence in character and judgement, together with his experience, and taking into account the size and nature of the Company, it is deemed appropriate at this point in time for him to remain Chairman of the Remuneration Committee. The Directors do not consider the appointment detrimental to compliance with principle D.2.

Compliance with the provisions will remain under review as the Company strategy and Board structure develops.

The Company has noted the revisions made to the UK Corporate Governance Code during 2018 and is committed to complying with the requirements of the new Code, where appropriate, during 2019. The Board will report its compliance, or otherwise, with the revised version of the Code, in the 2019 Annual Report & Accounts.

Offer to acquire Provident Financial plc

In its announcement issued on 22 February 2019, the Board confirmed its intention to apply to the FCA to transfer NSF's current listing on the Official List under the Listing Rules from a standard listing to a premium listing as soon as possible following completion of the acquisition of Provident Financial.

Leadership and effectiveness

The Company recognises the importance of a highly engaged board, one that is: close to the operations of the business; able to both support and challenge the executive team; and that is well-equipped to oversee governance, financial controls and risk management.

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, and in accordance with Company policy, subsequent appointments to other directorships are disclosed in advance to the Board.

Board composition and structure

The Board comprised six Directors in 2018, all of whom have served throughout the financial year, including:

<table>
<tr><th>Role</th><th>Responsibilities</th><th>Description of activities</th></tr>
<tr><td>Non-Executive Chairman

Charles Gregson</td><td>The Chairman is responsible for:
the leadership of the Board
the effectiveness of the Board
setting the Board's agenda
ensuring adequate time is available for discussion
promoting a culture of openness and debate
encouraging active engagement and appropriate challenge by all Directors
ensuring that Directors receive accurate, timely and clear information
regularly reviewing and agreeing with the Directors their training and development needs to enable them to fulfil their roles</td><td rowspan="3">The roles of Chairman and Group Chief Executive are fulfilled by separate individuals. Their roles are set out in writing and agreed by the Board. It is considered that no one individual or small group of individuals have unfettered powers of decision.

The Board as a whole is collectively responsible for the long-term success of the Company.

The Board sets the strategic objectives as well as the overall strategic direction of the Company. It also sets the Group's values and standards.

These objectives facilitate the implementation of the strategy and provide indicators through which management performance can be measured.

At Board meetings the Directors discuss the financial, operational, strategic, cultural, resource, and governance matters that affect the Group.

The Directors recognise the importance of being a dynamic business with the ability to respond to both opportunities and threats, thereby sustaining the long-term viability of the Group. The Company's strategy and business plan is therefore reviewed regularly, taking into account macro- and micro-environmental factors, shareholder, and other key stakeholder needs.

All decision-making is in the best interests of the Company and is conducted within a framework of prudent and effective controls that enable opportunities and risks to be assessed and managed.</td></tr>
<tr><td>Two independent Non-Executive Directors

Niall Booker
Heather McGregor</td><td>The Non-Executive Directors along with the Non-Executive Chairman have a responsibility for:
providing an external focus to the Board's discussions
providing constructive challenge in light of wider experience gained outside of the Company/industry
helping to develop proposals put forward by the Executive Directors on strategy and other matters affecting the Group's operational and financial performance
upholding high standards of integrity and probity
satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible
taking into account the views of shareholders and other stakeholders
supporting the Chairman and Executive Directors in instilling the appropriate culture, values and behaviours in the boardroom and the Group as a whole
continually reviewing the performance of the Executive Directors and the wider senior management team
determining appropriate levels of remuneration of Executive Directors
having a prime role in the appointment and removal of Executive Directors, and of succession planning
providing a sounding board for the Chairman</td></tr>
<tr><td>Group Chief Executive

John van Kuffeler

Two Executive Directors

Miles Cresswell-Turner
Nick Teunon</td><td>The Executive Directors are responsible for:
providing the Board with specialist knowledge of the business and industry-relevant experience
all matters affecting the operating and financial performance of the Group
the development and implementation of strategy, policies, budgets and the financial performance of the Group
the development and direction of the Group's culture, recognising that a healthy corporate culture can both generate and sustain long-term shareholder value
leading and managing the risk and finance functions across the Group</td></tr>
</table>

Group Company Secretary
The role of Company Secretary is fulfilled by Sarah Day. Under the guidance of the Chairman, she ensures that all Directors have full and timely access to relevant information and that it is of a high standard to enable the Board to make informed decisions.

The Company Secretary is also responsible for ensuring that correct Board procedures are followed, for advising on governance matters and for ensuring that there is a good flow of information within the Board and its Committees, as well as between senior management and the Non-Executive Directors.

Other tasks include facilitating tailored inductions and assisting with professional development of Board members, each of whom have access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Independence
In accordance with section B.1.1 of the Code, the Board determines Niall Booker and Heather McGregor to be independent Non-Executive Directors. The Board's assessment is based on the fact that Niall Booker and Heather McGregor receive no additional benefits from the Group, have not previously held an executive role within the Group and have served less than nine years on the Board. The Board believes that there are no current or past matters which are likely to affect Niall Booker's or 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 66 to 82. The Board determines that Charles Gregson would be an independent Non-Executive Director in the event that he did not hold Founder Shares.

Skills, experience and knowledge
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 relevant sectors:

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

Board diversity
The Company recognises the importance of diversity both at Board level and throughout the Group. 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.

In last year's report we indicated our 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. During 2018 an internal candidate was selected who has progressed through the initial screening phases of the scheme and is currently being considered for placements with external companies.

Appointments
The Board has adopted a formal 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. The two Non-Executive Directors are available to shareholders if they have any concerns, which contact through the normal channels of Chairman or the Executive Directors has failed to resolve or if such contact is inappropriate.

The appointment of a Senior Independent Director was reviewed as part of the 2018 Board evaluation and will continue to be considered annually.

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

Directors are encouraged to spend time in each of the three operating divisions and also to attend external seminars on areas of relevance to their role and to devote an element of their time to self-development through available training.

Adhering to the requirements of the Code, during 2018 the Chairman reviewed and agreed with each Director their training and development needs, taking into account their individual qualifications and experience.

A training programme was devised during the year and participants included those directors on subsidiary Boards in addition to those on the Non-Standard Finance plc Board. The joint sessions have proved to be a valuable addition in helping to ensure that director obligations are understood clearly across the Group. Topics covered during 2018 included Directors' duties and responsibilities, cyber risk, the 2018 revision of the Corporate Governance Code, and the Senior Managers and Certification Regime.

The Board receives regular detailed reports from senior management on the performance of each of the Group's operating activities and other information as necessary in order to manage the Group effectively. Regular updates are provided on relevant legal, regulatory, strategic, operational, corporate governance and financial reporting developments. Reports are also supplied on a monthly basis covering macro-environmental factors which supplement the horizon-scanning carried out by the Directors themselves.

Governance report *continued*

Independent advice
All Directors have access to advice from professional advisers, at the Company's expense, as and when required, ensuring that the Board and its committees are provided with sufficient resources to undertake their duties.

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. This duty is not infringed if the matter has been authorised by the Board of 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 any 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. The Director would subsequently refrain from voting on any matter that represented an actual or potential conflict of interest.

The Company Secretary keeps a record of any actual or potential conflict of interest declared by the Directors.

All potential conflicts approved by the Board are recorded in a Conflicts of Interest Register, which is reviewed by the Board regularly to ensure that the procedure is working effectively.

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 internal control 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 debt 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 business strategy, including reviews of the material risks and uncertainties facing the business;
- the receipt of reports from senior management on the risk and control framework as well as 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 may have changed since the previous review (see pages 30 to 32). 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 Audit Committee and the Risk Committee receive regular reports on compliance with Group policies and procedures.

On behalf of the Board, the Audit Committee and the Risk Committee confirm that, through discharging their responsibilities under their terms of reference as described, they have reviewed the effectiveness of the Group's system of internal controls and are able to confirm that necessary actions have been or are being taken to remedy any failings or weaknesses identified.

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

Further details of the Group's system of internal control and its relationship to the corporate governance structure are contained in the principal risks section of this report on pages 30 to 32, the Audit Committee report on pages 60 to 62 and the Risk Committee report on page 65.

Board Evaluation
The annual Board Evaluation gives the Directors the opportunity to reflect on the effectiveness of the Board's activities, the range of discussions, the quality of decisions, and for each Director to consider their own performance and contribution. The Board recognises that it provides a powerful and valuable feedback mechanism for improving board effectiveness.

During the course of the year the Board sought to address actions from the 2017 Board Evaluation, with close monitoring of progress in areas identified for further development. It was pleasing to conclude that matters identified in previous years had all been addressed.

In 2018 the evaluation was facilitated by an independent external party, Lintstock Ltd ('Lintstock'), for the first time. Lintstock was considered suitable because of its strong reputation in this field and its ability to provide a bespoke service.

The Directors were provided with a comprehensive questionnaire covering board composition, stakeholder oversight, board dynamics, management of meetings, board support, focus of meetings, strategic and operational oversight, oversight of subsidiaries, risk management and internal control, succession planning and human resource management, and priorities for change. This complemented and expanded upon the in-house evaluations carried out in previous years. Lintstock provided a report to the Board in early 2019 and concluded that the key priorities for the coming year were to focus on increased engagement between the Board and colleagues within the operational businesses, talent identification and succession planning, Director training and wider external feedback to provide the Board with a richer context for decision-making.

Board Performance Review
The Chairman met with each of the Directors on a one-to-one basis to appraise performance during the year. The Non-Executive Directors also met with the Chairman to appraise his performance.

Together, the Board Evaluation and the Board Performance Review help to facilitate the planning of ongoing training and development needs for 2019.

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 11:00 am on 1 May 2019.

Summary of Board Committee structure and responsibilities
The Company's corporate governance framework draws upon the work of the Board and five Board committees as outlined below:

Board of Directors
Membership at 31 December 2018
See page 51

Meetings held in 2018: 12

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

The Company's Articles of Association are available from the Companies House website.

Matters reserved for the Board
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/reappointment 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.

	Audit Committee	Nomination Committee	Risk Committee	Remuneration Committee	Disclosure Committee
Certain responsibilities have been delegated to the Board's five committees so to assist the effective operation of the Board and to ensure the right level of attention and consideration is given to all relevant matters.	**Key objectives:** To assist the Board in discharging its duties and responsibilities for financial reporting and internal financial control.	**Key objectives:** To assist the Board in ensuring that the Board and its Committees comprise individuals with the requisite skills, knowledge and experience to ensure they are effective in discharging their responsibilities.	**Key objectives:** To assist the Board in fulfilling its oversight responsibilities with regard to the Group's risk appetite and overall risk management.	**Key objectives:** Recommending to the Board the remuneration of the Chairman, Executive Directors, Company Secretary and senior management.	**Key objectives:** To assist the Board in discharging its duties and responsibilities with regard to disclosures, and disclosure controls and procedures.
	Meetings held in 2018: nine	**Meetings held in 2018:** two	**Meetings held in 2018:** three	**Meetings held in 2018:** five	**Meetings held in 2018:** Nil
	The membership of the Audit Committee and its report is on page 60	The membership of the Nomination Committee and its report is on page 63	The membership of the Risk Committee and its report is on page 65	The membership of the Remuneration Committee and its report is on page 66	The membership of the Disclosure Committee is the Chief Executive, the Chief Financial Officer and the Company Secretary

Governance report *continued*

The composition and role of each committee is detailed in their respective reports that follow. 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.nsfgroupplc.com.

The boards of each of the Company's operating subsidiaries report into the Non-Standard Finance plc Board. There is a Group Chief Risk Officer who oversees all divisions, and in conjunction with the Company Secretary, reports into the Risk Committee regarding Group risk oversight.

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.

The strategy meeting in 2018 was attended by each of the Directors as well as senior management (where appropriate). 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;
- a review and discussion of the non-standard finance consumer market in which the Group operates;
- a review and discussion of the macroeconomic outlook for the UK and possible impact on the Group's businesses; and
- a presentation on the investor relations, public affairs and communications plans for the Group.

All Directors receive Board papers, which are circulated approximately one week in advance of scheduled meetings, and minutes are taken of each meeting. A table reflecting the Directors' attendance at Board meetings is shown below.

Meetings and attendance

Director	Attendance and total number of meetings to which the Director was entitled to attend
John van Kuffeler	12/12
Nick Teunon	12/12
Miles Cresswell-Turner	12/12
Niall Booker	12/12
Charles Gregson	12/12
Heather McGregor	12/12

Activities covered during 2018

During 2018 the Board had 12 scheduled meetings 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	• Group structure • Consideration of potential merger or acquisition • Approval of 2018 budget • Approval of recommendations within the Board Evaluation report • Approval of a Non-Executive Director to mentor an operating subsidiary Board Director • Individuals and boards identified to participate in the 'Future Boards scheme' • Review of possible acquisition
February	• Progress update regarding the Group's preparation for the implementation of General Data Protection Regulations ('GDPR') compliance • Board briefing regarding the support and planned launch of the 'Loan Smart' charity
March (two meetings)	• Review and approval of the 2017 Annual Accounts • Review and approval of the 2017 Group results announcement • Approval of final dividend to be proposed at the 2018 AGM • Noted formation of NSF Group Limited • Reappointment letters for Charles Gregson and Heather McGregor • Review and approval of Matters Reserved for the Board • Approval of Term of Reference of Remuneration Committee and Disclosure Committee
April	• Approval of Term of Reference of Nomination Committee • Approval of revised budget (3+9 forecast) • Approval of unaudited interim accounts for the two months ended 28 February 2018 • Overview of Group insurance provision
May	• AGM • Directors' strategy day(s) • Approval to grant share options under the NSF 'Save as you earn scheme' ('SAYE')
June	• Approval of Term of Reference of Audit Committee • Business continuity updates from divisions • Approval of corporate policies • Approval of modern slavery statement • Agreement to sign the 'Dying to Work' charter • Board consideration of succession planning provision in place across the Group
July	• Health & safety reviews • Approval of Term of Reference of Risk Committee • Approval of 6+6 forecast • Approval of draft interim results statement and delegation of authority to approve interim accounts

Month	Business matters discussed
September	• Senior Management and Certification Regime briefing • Review of Board composition • Review of strategic initiatives • Update regarding gender pay gap reporting
October	• IT security update • Approval of change of registered office • Approval of 9+3 forecast • Corporate Responsibility Programme update
November	• Discussion regarding 2019 subsidiary budget submissions and approval of Everyday Loans Group budget assumptions • Director training regarding revised Corporate Governance Code (July 2018) and Director responsibilities
December	• Approval of the Group-wide Governance Framework and Evaluation process • Quarterly review of strategic initiatives • Business Continuity planning update • Senior Manager and Certification Regime ('SMCR') training and project outline • Review of Conflicts of Interest register • Review of Gifts and Hospitality register

Matters to be covered in 2019

- Review of the long-term vision and strategic direction of the Group
- Review of the financial performance of the Group
- Analysis of the Group structure and management performance
- Approval of budget, forecasts and projections
- Review of the Group's debt funding arrangements
- Potential acquisitions
- Approval of the Group's half-year and full-year results
- Evaluation of corporate governance framework
- Review of business continuity and crisis management arrangements
- Review of the Group's corporate culture
- Review of stakeholder management
- Review of information security, cyber security and data protection
- Board evaluation, composition and succession planning
- Approval of bonus scheme
- Review of gender pay gap reporting, equality and diversity across the Group
- Corporate social responsibility, environmental performance, and community activities reporting
- Review of matters reserved for the Board and Board Committee Terms of Reference
- Review of corporate policies
- Approval of modern slavery statement
- Review of health and safety across the Group
- Review of gifts and hospitality register, and conflicts of interest register
- Consideration of senior manager and certification regime requirements
- Investor relations

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.nsfgroupplc.com. The website also contains other information about the Group and its business.

The Chairman is responsible for ensuring that appropriate channels of communication are established between the Executive Directors and shareholders, and ensures that the views of shareholders are made known to the Board.

The Group Chief Executive and Chief Financial Officer discuss the Company's governance and strategy with major shareholders, and listen to their views in order to help develop a balanced understanding of any issues and/or concerns.

The Board aims to foster close relations with its investors and sell-side analysts through a regular and comprehensive programme of investor relations activity. All shareholders have the opportunity to convey their views via the Director of Investor Relations and Communications and/or can make enquiries by email or telephone.

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.

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 2019 AGM of the Company is to be held at the offices of Maitland/AMO, 13 King's Boulevard, London, N1C 4BU at 11.00 am on 1 May 2019.

The Notice of Meeting will be published on or around 8 April 2019 and will be available to download from the Company's corporate website: www.nsfgroupplc.com.

Sarah Day
Company Secretary
14 March 2019

Audit Committee report
for the year ended 31 December 2018

Membership
The Audit Committee (the 'Committee') comprises three Non-Executive Directors, two of whom are independent. The provisions of the Code (C3.1) require that the Audit Committee for smaller companies comprises two independent Non-Executive Directors. All three members of the Committee bring complementary financial experience and diverse viewpoints, helping to ensure robust challenge and debate at the Committee.

The members of the Committee are: Niall Booker (Chair), Charles Gregson and Heather McGregor each of whose biographical details are set out on page 51.

Meetings and attendance
The Committee met on nine occasions during the year ended 31 December 2018.

Director	Attendance and total number of meetings that the Director was entitled to attend
Niall Booker (Chairman)	9/9
Charles Gregson	9/9
Heather McGregor	9/9

The Chair of the Committee meets regularly for a discussion with the external auditor without executive management present and also with the internal auditor, when required.

Committee meetings are attended by both the Chief Financial Officer and the Company Secretary. Both the external auditor and internal auditor are 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.

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 which are also available on the Group's corporate website: www.nsfgroupplc.com. 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 such announcements before they 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 throughout the audit as well as 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);
- making recommendations to the Board in relation to the appointment, reappointment and removal of the Company's internal auditor, approving the role and mandate of the internal auditor;
- agreeing the scope of the internal audit plan to ensure that it is aligned to the key risks of the business and receive regular reports on work carried out;
- ensuring the internal audit has unrestricted scope, necessary resources and access to information to enable it to fulfil its mandate in accordance with appropriate professional standards;
- ensuring that the internal auditor has direct access to the Board Chairman and to the Committee chairmen, providing independence from the executive and accountability to the Committee;
- reviewing the adequacy and effectiveness of the Company's internal audit review function and internal financial controls;
- ensuring appropriate coordination 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, reappointment 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.

Significant issues and areas of judgement considered by the Committee
Throughout 2018 the Committee determined that the following aspects of the financial statements were of significant interest.

1. Impairment of goodwill
Management performed a review of goodwill as at 30 June 2018 and a full goodwill impairment assessment as at 31 December 2018 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 tangible net asset values and carrying values of goodwill. The Committee challenged the appropriateness of management's key assumptions and 2019 forecast earnings. It was reported to the Committee that a reduction in 2019 forecast earnings of between 3% and 8% would necessitate an impairment charge. The Committee recognised that this is significantly tighter than identified in 2017. Following sensitivities performed on the forecast earnings, the Committee 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 14 to the financial statements.

2. IFRS 9
IFRS 9 is a new accounting standard that replaces the provisions of IAS 39 relating to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The Committee has, over the course of the year, received regular updates from management to ensure that each stage of the implementation of the new accounting standard has been subject to appropriate scrutiny and challenge. The Committee has undertaken and will continue to undertake an ongoing role specifically with regard to the regular assessment of the macro-economic environment to ensure that this element is taken into account and that the accounting standard continues to be applied appropriately.

3. Impairment of customer receivables

The implementation of IFRS 9 has resulted in a revision to the impairment methodology adopted by the Group. There is however, an ongoing requirement for management to make significant judgements in the assessment of any provisions for impairment losses against customer receivables. 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.

4. Refinancing of the Group's existing bank facilities

Following strong loan book growth at each of the Group's operating businesses during the latter part of 2017 and into 2018 and in order to support future growth in 2019, NSF announced that it had renegotiated the current lending arrangements and secured a further £60m term loan facility (the 'Term Loan'), provided by a group of institutional investors, led by Alcentra Limited, bringing the Group's total available term debt facility to £285m. The revised loan is not repayable until 2023 and bears an interest rate of LIBOR plus 725 basis points per year with interest payable every six months. In addition, the Group also secured a further £10m revolving credit facility provided by Royal Bank of Scotland at an interest rate of LIBOR plus 350 basis points per year. This brings the Group's total revolving credit facility to £45m. The Committee challenged management on the new arrangements and received advice from Lazard & Co. Limited regarding their suitability for the Group.

5. IFRS 16

In readiness for the adoption of IFRS 16 regarding the identification and treatment of lease arrangements in the financial statements of both lessees and lessors, the Committee has had oversight of the proposed change in accounting to be adopted by the Group and believes the changes to be appropriate and in accordance with the new standard.

6. Review of the half-year results

The review during the year included the following items:

- review of impairment of goodwill, intangibles and customer receivables valuation;
- review of the adoption of IFRS 9 and the related disclosure;
- review of half-year results;
- review and approval of the valuation of intangible assets which confirmed it was appropriate that no impairment review was required;
- review of the report on the interim review from the external auditor;
- review of the half-year results announcement; and
- discussion with the external auditor without any Executive Director or employee being present.

7. Review of the Annual Report and 2017 full year financial statements

In conducting its review of the Annual Report and Accounts, the Committee:

- reviewed the impairment of goodwill, intangibles and customer receivables valuation carried out by management;
- reviewed the accounting treatment proposed regarding the adoption of IFRS 9;
- reviewed and approved the going concern paper which confirmed it was appropriate to prepare the Annual Report and financial statements for the year ended 31 December 2017 on a going concern basis;
- reviewed and approved the viability statement and related papers;
- reviewed the full-year results and the form and content of the draft Annual Report and financial statements;
- discussed with the external auditor without any Executive Director or employee being present;
- reviewed the preliminary results for the year ended 31 December 2017; and
- reviewed the statement on internal controls.

8. 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. Members of the Committee have informally discussed the internal audit function with some senior members of management.

Internal Audit reviews conducted during the year included:

- updated reviews of the lending and collections processes;
- remuneration scheme reviews;
- information security reviews;
- key financial control reviews;
- corporate policies and biannual attestation process; and
- risk and compliance review.

9. 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 62 of this Annual Report.

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

External audit

The Company's auditor is Deloitte LLP, who have conducted the external audit 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.

Audit Committee report *continued*

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 in note 6 to the financial statements.

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 2018 the level of non-audit fees amounted to £nil (2017: £192,000). The non-audit work carried out during 2017 related to due diligence. The fees paid to the external auditor are set out in note 6 to the financial statements. The fees for non-audit work carried out by the auditor in 2018 represent nil% (2017: 42%) of audit fees.

During 2018 the Company 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 demonstrate clearly 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 Auditor now reports directly to the Audit Committee thereby ensuring the independence and effectiveness of the Internal Auditor. At the start of the year, following a review of the roles and responsibilities of each of the Board's committees, it was decided to pass responsibility for the internal audit activity to the Audit Committee (previously it had been managed by the Risk Committee). This reflects the growing maturity of the Group, where internal audit activity is progressing from 'post-acquisition' risk reviews to more focused internal audit controls reviews.

The Internal Auditor provides regular reports to the Audit Committee and also to the Risk Committee, where appropriate, as well as to the Board as a whole.

Viability statement

In accordance with the 2016 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 which is in line with the Group's strategic planning cycle. The Directors' assessment has been made with reference to the Group's current position and strategy, as laid out in the Strategic Report (see pages 7 to 49) and the Group's principal risks and uncertainties and how these are managed (see pages 30 to 32). In making their assessment, the Directors took account of the Group's current financial and operational positions. They noted the potential need to increase the debt facilities to fund the operations of the business during the latter stages of 2019 and have concluded that it is reasonable to assume that the facilities will be extended or replaced with similar facilities by this time. In addition, they discussed the potential financial and operational impacts of the principal risks and uncertainties and the likely effectiveness of the current and available mitigating actions, in particular noting the ability of the Group to reduce lending and its intention to raise additional debt funding to support the Group's lending ambitions,

The Group's strategy and 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 possibility of an economic downturn based on the review of performance through the macroeconomic cycle as part of the IFRS 9 implementation and therefore reflects a number of principal risks faced by the business. The detailed review draws on external empirical evidence for reference and concluded that there appears to be low sensitivity within the Group to macro-economic factors. It is not possible to predict to what extent Brexit will impact the businesses in the current strategic three-year planning period but the Group anticipates interest rates being held at or very near current rates to support the economy.

The regulatory downside scenario is based on a review by management with regard to the impact of recent FCA changes in regulation. Management does not consider the recent changes to have a material impact on expected credit losses.

In addition, management considered a third scenario regarding the absence of additional funding. The review concluded that the financial performance of the Group would not suffer in 2019 but would then show limited increases in profitability in later years.

Reviews of internal controls across the Group are undertaken by the Group's Internal Audit function, providing comment over the design and effectiveness of controls. Report findings are regularly reported to the Audit Committee for monitoring and assessment.

On 22 February 2019, the Company announced a firm offer to acquire Provident Financial plc by way of a reverse takeover. The proposed acquisition has not been included in the Directors' assessment of future prospects as the outcome of the offer remains uncertain. But, as set out in its announcement, a copy of which is available on the Group's website, the Board believes that the Transaction represents a compelling strategic and financial opportunity to create shareholder value.

Following the assessment, the Directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out on page 16.

Niall Booker
Chairman of the Audit Committee
14 March 2019

Nomination Committee report
for the year ended 31 December 2018

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
Aligning with the provisions of the Code, the Committee comprises a majority of members who are deemed to be independent Non-Executive Directors. The members of the Committee are: Charles Gregson (Chair), Niall Booker and Heather McGregor each of whose biographical details are set out on page 50. Note that Charles Gregson would not chair the Committee when it was considering the appointment of a successor to the chairmanship of the Company.

Meetings and attendance

Director	Attendance and total number of meetings that the Director was entitled to attend
Charles Gregson (Chairman)	2/2
Niall Booker	2/2
Heather McGregor	2/2

The Chief Executive Officer, the Chief Financial Officer and Company Secretary also attended all Nomination Committee meetings.

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

- keeping under review the leadership needs of the organisation, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace, taking into account strategic issues and commercial changes affecting the Company;
- reviewing the structure, size and composition of the Board, taking into account results of the Board Evaluation and making recommendations to the Board with regard to any proposed changes;
- identifying and nominating candidates who are assessed as having the skills, knowledge, experience, and independence, as well as sufficient time to devote to their responsibilities to fill Board vacancies, and making appropriate recommendations to the Board for the appointment of Directors;
- considering and formulating succession planning for Directors and senior executives; and
- reviewing and considering the performance and effectiveness of the Committee through the results of the Board Evaluation process.

The terms of reference, explaining in full the role of the Committee and the authority delegated to it by the Board, are available on the Group's website: www.nsfgroupplc.com.

Principal activities of the Committee during 2018:
- reviewing the composition of the Board and the balance of Executive and Non-Executive Directors;
- renewal of service agreements of Charles Gregson and Heather McGregor; and
- reviewing the succession plans for the Board and the senior management within the Group.

Diversity
The search for Board candidates is conducted, and appointments made, on merit, against clear objective criteria and with due regard given to the benefits of diversity.

The Company and each of its operating subsidiaries 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 and professional development
Upon joining the Board, all Directors are required to undertake a formal and rigorous induction which is tailored to their individual needs. As part of this process, Directors are required to make themselves available to meet with major shareholders should they request such a meeting.

A training schedule formed part of the Board planning for the year and was addressed directly at Board level. Topics covered during 2018 included Directors' duties and responsibilities, cyber risk, the 2018 revision of the Corporate Governance Code, and the Senior Managers and Certification Regime.

Board evaluation and individual performance review
It is pleasing to report that matters identified in the 2017 Board Evaluation have been addressed. In 2018, the evaluation was facilitated by an independent external party company called Lintstock Ltd.

Nomination Committee report *continued*

This third-party review complemented and expanded upon the in-house evaluations carried out in previous years. Lintstock Ltd reported their findings to the Board in early 2019 and the key points from their review highlight the strength and expertise of the Board and the advantage gained through having a relatively small board, with strong communication channels. The evaluation outlined a number of areas of focus for the Board in 2019, which in summary are to focus on maintaining a high level of engagement between the Board and colleagues within the operational businesses, talent identification and succession planning, Director training and wider external feedback to provide the Board with a richer context for decision-making.

An evaluation of the performance of each of the Board members revealed that each Director continues to contribute effectively and is demonstrating due commitment to the role (including the commitment of time to both attend Board and Committee meetings and complete such preparation as is required for such meetings).

Board composition
During 2018 the Committee reviewed the composition of the Board, taking into account the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness. It was deemed appropriate that the service agreements of Charles Gregson and Heather McGregor were renewed for a further three years, subject to annual re-election by members at the AGM.

The terms and conditions of appointment of all Non-Executive Directors are available for inspection at the forthcoming AGM, and on request as per the Companies Act 2006.

Areas of focus in 2019
The main areas of focus for the Committee in 2019 include an evaluation of Board composition, succession planning, review of the Committee's terms of reference, a Board performance evaluation, and a review of Board effectiveness.

Charles Gregson
Chair of the Nomination Committee
14 March 2019

Risk Committee report
for the year ended 31 December 2018

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. Both the Chief Financial Officer and Company Secretary attended all Committee meetings. Other relevant parties are also invited to attend Committee meetings, as appropriate.

The Directors' attendance at the meetings during 2018 is recorded in the table below:

Director	Attendance and total number of meetings that the Director was entitled to attend
Heather McGregor (Chairman)	3/3
Niall Booker	3/3
Charles Gregson	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 taken by each committee and the Board. The Committee met three times during the year. In addition, the Committee Chair attended meetings with the Executive Directors and management at Everyday Loans, the Guarantor Loans Division and Loans at Home.

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. As part of this process, 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;
- 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 review the effectiveness of the Company's risk management and internal control systems.

Principal activities of the Committee during 2018
The Committee oversaw the implementation of a Group-wide risk management system which has provided the Committee with a clear and consolidated view of risk across the Group as a whole, taking into account materiality thresholds that have already been approved by the Committee. The implementation process for this new system required that the Committee review and enhance the Company's risk management and internal control systems. This review included all material, financial, operational and compliance controls, the identification of the key risks affecting the Company and a re-assessment and confirmation of the Group's risk appetite statements and target residual ratings for each of the principal risks. The principal risks are set out on pages 30 to 32.

The Committee has also been focused on ensuring that appropriate risk management strategies are implemented, monitored and reported effectively within the overarching Group-wide risk management framework. The Committee enhanced and embedded an effective enterprise risk management framework within the newly implemented risk management system, thereby allowing regular and detailed analysis of the principal risks faced by the business.

During the year to 31 December 2018 the Committee focused on the following matters:

- the ongoing review of and identification of Group risks with action plans put in place to mitigate such risks;
- a review of the risk appetite status across the Group;
- oversight of the risk management system implementation and key reporting requirements;
- oversight of internal audit matters until June 2018 when the responsibility moved to the Audit Committee;
- quarterly complaints reviews;
- oversight of half-yearly credit risk reporting; and
- a review of business continuity planning across the Group.

Areas of focus in 2019
The Committee intends to continue to improve and embed the Company's risk management framework during 2019. Key tasks include a further review and enhancement of the Group risk management framework; further development of the Group's risk register; and further enhancements to the newly implemented risk management system.

Heather McGregor
Chair of the Risk Committee
14 March 2019

Directors' remuneration report
for the year ended 31 December 2018

The disclosures in this report have 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 – audited.
2. Implementation of Remuneration Policy for the Executive Directors for 2019
3. Consideration by the Committee of matters relating to the Directors' remuneration for 2018 and 2019
4. Group Chief Executive and employee pay
5. Single figure remuneration table: Non-Executive Directors – audited
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') for 2018. The NSF Remuneration Policy was approved by shareholders at last year's AGM with a significant supporting vote of 95%. This year we have focused on the implementation of this Policy and present the outcomes in the Annual Report on Remuneration which will be voted on by shareholders at our upcoming AGM on 1 May 2019.

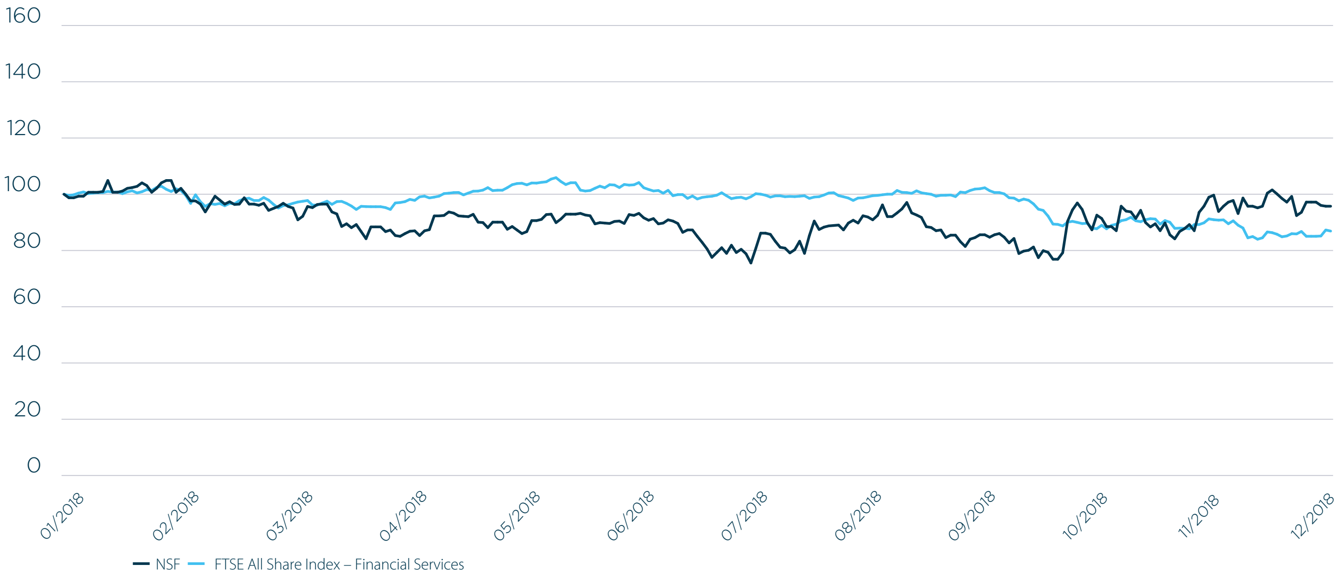
This year has been another strong year of performance for the Group with investment in infrastructure beginning to bear fruit as and helping to drive strong loan book growth whilst maintaining a tight control on impairment and the remuneration decisions taken by the Committee during the year reflect this.

Business context and Committee decisions on remuneration
As described in the 2018 Financial Review and Divisional overview on pages 33 to 45, the Group delivered against a number of operational and financial objectives including annual loan book growth of more than 20% in two out of three business divisions for the second year in a row. The fact that this growth was achieved whilst maintaining a tight control on impairment was particularly encouraging and reflects the strength and skill of the senior management team, as well as the effectiveness of the Group's risk management framework. The significant investment made in supporting infrastructure during 2017 continued in 2018, underpinning the future achievement of the Group's objectives to generate strong growth and an attractive return on assets, as well as maintaining each operating business's strong position in its respective market segment.

This continued investment in 2018, has resulted in sustained growth for the Group, outperforming the FTSE All Share Index – Financial Services, for the Group over the last year – the second year in a row where we have outperformed our benchmark. We consider this Index to be the most appropriate broad-based equity market to benchmark the Group's performance.

The business has developed rapidly and is now firmly established within three significant sectors of the non-standard finance market. Following the change in Remuneration Policy last year to reflect the significant changes in Executive Director responsibilities, the focus of the Remuneration Committee during 2018 has been predominantly to ensure that the award of Director bonuses has been measured against challenging targets of both a financial and non-financial nature, with specific focus on the delivery of initiatives supporting Good Customer Outcomes within each operation.

Annual bonus performance and outcomes
The Group financial target for 2018, which equated to 70% of the maximum potential bonus, was £15.27m based on the profit of the Group before certain adjustments including fair value adjustments, certain IFRS 9 transitional related items, amortisation of acquired intangibles, exceptional items and tax. The actual profit on this basis was £15.06m, being 98.6% of target and above the 90% threshold for payment of the minimum 25% of the financial element of the bonus. The next 50% of the financial element accrued on a straight-line basis between 90% and 100% of target. Therefore, the financial element of the bonus vested at 68.1% of the maximum financial element with a payout of 47.6% of maximum bonus for John van Kuffeler and Nick Teunon.



The Group non-financial target for 2018 was based on six key component targets equating to 30% of maximum potential bonus. These components are detailed in Part D of the report. I am pleased to say that 68.3% of the non-financial targets vested with a payout of 20.5% of maximum bonus, reflecting the importance the Directors place on ensuring that the Group conducts its business in a compliant and responsible manner.

Following the approval of the revised Remuneration Policy at the AGM in March 2018 with regard to the new role being undertaken by Miles Cresswell-Turner at Everyday Loans Group ('ELG') and the need to fairly reflect his contribution made in both roles, the Remuneration Committee approved that his bonus targets (of both financial and non-financial nature) would be allocated between Group level and ELG targets with a one-third/two-third apportionment.

The ELG financial target for 2018, which equates to 70% of the maximum potential bonus related to ELG activity, was based on the profit of ELG before fair value adjustments, interest, exceptional items and tax. The actual profit on this basis was £34.98m being 112% of target and above the 90% threshold for payment of the minimum 25% of the financial element of the bonus. The next 50% of the financial element accrued on a straight-line basis between 90% and 100% of target. The final 25% accrued on a straight-line basis between 100% and 105% of target. Therefore, the financial element of the bonus vested at 100% of the maximum financial element of 70% with a payout of 70% of maximum bonus.

The ELG non-financial target for 2018 with respect to Miles Cresswell-Turner was based on six component targets equating to 30% of maximum potential bonus related to ELG activity. These components are detailed in Part D. 50% of the non-financial targets vested with a payout of 15% of maximum bonus, reflecting the importance the Director's place in ensuring that the Group conducts its business in a compliant and responsible manner.

The Remuneration Committee has therefore determined a bonus payout of 68.1% of base salary for John Van Kuffeler and Nick Teunon and at 79.4% of base salary for Miles Cresswell-Turner. The bonus amounts awarded to the Executive Directors was £221,300 for John van Kuffeler, £190,700 for Nick Teunon and £222,200 for Miles Cresswell-Turner. The 2018 bonuses will be paid in cash. No part of the bonus will be subject to deferral. Further details of the annual bonus for 2018 can be found on page 77.

Awards were also made, including to Executive Directors, under the all-employee Sharesave Plan ('SAYE').

Looking forward to 2019

The Company is aware of the recent changes made to the Corporate Governance Code (revised July 2018) (the 'Code') and, given the Board's desire to comply with the Code where feasible, despite there being no requirement as a standard listed company to comply, the Board is currently considering how best to adopt the revised content where practicable, particularly with reference to areas relating to remuneration. This review will occur over the course of 2019 and the Committee will address the outcomes in the Directors Remuneration Report next year.

Format of this report and matters to be approved at our Annual General Meeting in May 2019

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

Part B: Our remuneration at a glance (page 68).

Part C: Directors' Remuneration Policy (pages 69 to 76).

Part D: Annual Report on Remuneration providing details of the payments made to Directors in 2018, as well as other statutory disclosures (pages 76 to 82) and which complies with the disclosure requirements of the Listing Rules of the UK Listing Authority and the UK 2016 Corporate Governance Code.

At our 2019 AGM, resolutions to approve the Annual Report on Remuneration and this letter will be put to shareholders for approval. I ask for your support on the 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
14 March 2019

Directors' remuneration report *continued*

Part B: Our remuneration at a glance

Ahead of the summary of the Remuneration Policy and the Annual Report on Remuneration, we have below summarised how key elements of the Remuneration Policy will be implemented for 2019 and the key decisions taken by the Committee in relation to base pay and incentives for the Executives in respect of 2018.

2019 Executive Director Remuneration Policy

	John van Kuffeler	Nick Teunon	Miles Cresswell-Turner
Base salary	£333,100	£287,000	£287,000
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 2019	• 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 25% of target with on-target vesting at 75% and maximum vesting at 100%, with vesting on a sliding scale between these points. • As Miles Cresswell-Turner is Chief Executive of ELG, one-third of his performance measures will be based on Group targets and two-thirds will be based on performance measures for ELG. The measures relating to ELG will carry the same weighting as for the Group measures, i.e. 70% on the financial performance of ELG and 30% on non-financial targets for ELG. • 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 such 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

2018 year-end decisions made:

	John van Kuffeler	Nick Teunon	Miles Cresswell-Turner
2019 salary review	2.5% increase to £333,100 per annum from 1 January 2019	2.5% increase to £287,000 per annum from 1 January 2019	2.5% increase to £287,000 per annum from 1 January 2019
2018 bonus outcome	68.1%	68.1%	79.4%
Value	£221,300	£190,700	£222,200
% of salary/maximum	68.1% of salary	68.1% of salary	79.4% of salary

Part C: Directors' Remuneration Policy Summary

This section of the report contains details of the Directors' Remuneration Policy that governs 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 was approved by shareholders at the Company's AGM on 14 May 2018. The Policy is displayed on the Company's website, in the Investors section.

1. Executive Director Remuneration Policy

Remuneration strategy

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

1	2	3	4	5
Attract, motivate and retain Executive and senior management in order to deliver the Company's strategic goals and business outputs	Encourage and support a culture that delivers good customer outcomes and which adheres to FCA best practice	Reward delivery of the Company's business plan and key strategic goals	Adhere to the principles of good corporate governance and appropriate risk management	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 remuneration structure supports and motivates 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 Summary 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; and • 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 2019 are disclosed on page 78.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.

Directors' remuneration report *continued*

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 payout 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.

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Long-Term Incentive Non-Standard Finance LTI for Executive Directors and senior management. The Long-Term Incentives support the long-term strategic objectives of the Group.	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 per share. 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 per share.
Founder Shares awarded to Executive Directors on IPO.	Prior to the IPO the Executive Directors, Charles Gregson and Robin Ashton, subscribed £255,000 for 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 on IPO 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).

Directors' remuneration report *continued*

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Everyday Loans Group LTI for Miles Cresswell-Turner and senior management of ELG. The Long-Term Incentives support the long-term strategic objectives of the Group.	In recognition of Mr Cresswell-Turner becoming Chief Executive of ELG, he will receive an award under the ELG LTI which was implemented in 2017. The structure of the award is a nil-cost option over NSF shares.	The maximum value of the award under the ELG LTI for Mr Cresswell-Turner is £900,000.	Under the ELG LTI, participants share in a pool of 5% of the equity value above a hurdle equity value of ELG of £267m. The pool is subject to a cap of £6m. Mr Cresswell-Turner will receive an allocation of 15% of the pool, which will result in a 0.75% share of the growth in ELG's equity value above £267m at 31 December 2019, subject to a cap of £900,000. Performance will be tested against the hurdle at 31 December 2019, though the ability to exercise the option will be deferred for one year. Shares acquired on the exercise of the option will have to be held for a further year. Awards under the NSF LTI will vest at the end of December 2020. As Mr Cresswell-Turner holds an award under the NSF LTI, which was made during 2017, the total value of shares received by Mr Cresswell-Turner under the ELG LTI and the NSF LTI at the end of December 2020 will be restricted to the greater of the value of the shares receivable under the NSF LTI and the value of the shares receivable under the ELG LTI.
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 are 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.

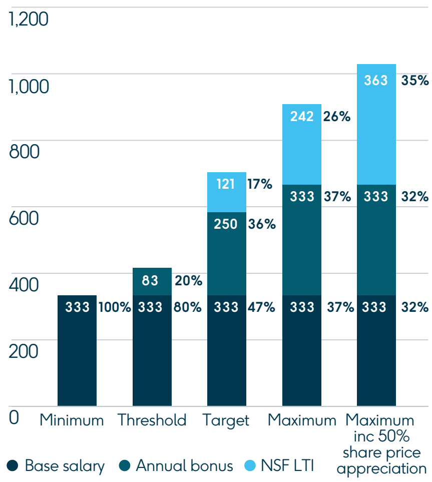
Discretion with the Directors' Remuneration Policy
The Committee has discretion in several areas of Policy as set out in this report. The Committee may also exercise operational and administrative discretion under relevant plan rules approved by shareholders as set out in those rules. In addition, the 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.

2. Illustrations of application of Remuneration Policy

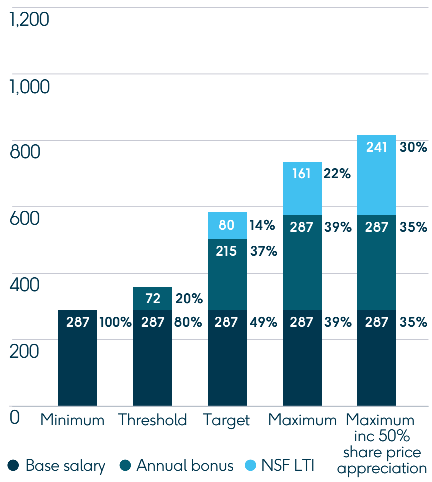
The charts below seek to demonstrate how pay varies with performance for the Executive Directors based on the stated Remuneration Policy. The charts show an estimate of the remuneration that could be received by Executives Directors under the Policy set out in this report. Each of the bars is broken 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.

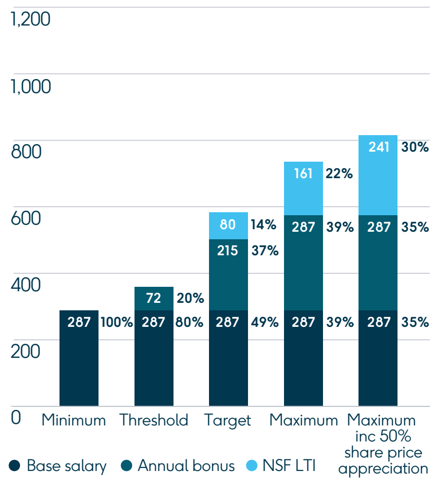
John van Kuffeler (£'000)



Nick Teunon (£'000)



Miles Cresswell-Turner (£'000)



Assumptions used in determining the level of payout under given scenarios are as follows:

Element	Minimum	Threshold	Target	Maximum	Maximum inc 50% share price increase
Fixed elements	Base salary at 1 January 2019 Estimated value of benefits provided under the Policy Pension – 10% of salary				
Annual bonus	Nil	25% of maximum	75% of maximum	100% of salary	100% of salary
NSF LTI	Nil	Nil	100% of the IFRS 2 value of the award	200% of the IFRS 2 value of the award	300% of the IFRS 2 value of the award
ELG LTI	Nil	Nil	As for NSF LTI	As for NSF LTI	As for NSF LTI

Awards made under the NSF LTI and ELG LTI will be on a one-off basis. The on-target value displayed in the charts represents the expected IFRS 2 value of the NSF LTI award. The maximum value displayed represents twice the expected IFRS 2 value for the NSF LTI and the maximum value with 50% share price increase is 300% the expected IFRS 2 value.

The IFRS 2 value is considered to be a suitable basis for estimating the potential payouts of the NSF LTI. The ELG LTI award for Miles Cresswell-Turner underpins his NSF LTI award and therefore the on-target and maximum values of this award are effectively included within the NSF LTI award for him.

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 NSF 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.

4. Executive Director service contracts and payments 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.
NSF LTI and ELG 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.

Over the course of the next year, the Committee intend to contact key investors in order to facilitate more active shareholder engagement around remuneration related issues. The outcome of these discussions will be reported in the 2019 Directors' Remuneration Report.

All-employee remuneration

NSF are committed to creating an inclusive working environment and to reward our employees throughout the organisation in a fair manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions.

In June 2018, the Financial Reporting Council ('FRC') provided an updated UK Corporate Governance Code, which included an increased focus on the link between all employee remuneration and executive remuneration. In light of the changes to the code, the Remuneration Committee has committed to ensure that the approach to remuneration for employees adopted within subsidiary companies will be considered when reviewing the Remuneration Policy. The Board has also confirmed the role of Heather McGregor as Non-Executive Director with responsibility for ensuring Board engagement with the workforce.

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 cash or shares in NSF. 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 page 81. Increases in fees will be in line with the median fee levels of comparable companies.	Not applicable.
Expenses To provide Non-Executive Directors with travel and subsistence expenses.	Non-Executive Directors are reimbursed for all reasonable travelling and subsistence expenses (including any relevant tax) incurred in carrying out their duties.	Not applicable.	Not applicable.

Letters of appointment

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

	Date of appointment
Charles Gregson	30 April 2018
Heather McGregor	30 April 2018
Niall Booker	9 May 2017

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.

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 2018. Disclosures in this report have 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 1 May 2019.

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	Benefits £000	Bonus £000	Long-Term Incentives £000	Pension £000	Other £000	Total £000
John van Kuffeler	**2018**	**325**	**38**	**221**	**–**	**30**	**–**	**614**
John van Kuffeler	2017	288	36	145	–	29	–	498
Nick Teunon	**2018**	**280**	**17**	**191**	**6**	**26**	**–**	**520**
Nick Teunon	2017	230	13	116	4	23	–	386
Miles Cresswell-Turner	**2018**	**280**	**19**	**222**	**6**	**25**	**–**	**552**
Miles Cresswell-Turner	2017	295	15	124	4	21	–	459

Notes
1 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 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.
3 The base salary for Miles Cresswell-Turner included a temporary additional salary of £50,000 in 2017 paid in respect of the period when he was acting as Chief Executive of ELG as well as continuing his responsibilities as an Executive Director. The additional salary was excluded in the determination of his bonus. There has been no additional salary in 2018.
4 Long-term incentives were the grant of options at a 20% discount under the SAYE plan.

Annual bonus outcomes for the period ended 31 December 2018 – audited

For 2018 the Executive Directors had a maximum annual bonus opportunity of 100% of salary. For each Executive Director, the 2018 annual bonus determination was based on the achievement of the financial and non-financial targets. The annual bonus table below provides information on the resulting bonus payment for each Executive Director.

	John van Kuffeler			Nick Teunon			Miles Cresswell-Turner		
	Payout (% opportunity for metric)	Weighting	Payout (% maximum bonus)	Payout (% opportunity for metric)	Weighting	Payout (% maximum bonus)	Payout (% opportunity for metric)	Weighting	Payout (% maximum bonus)
Group financial	68.0%	70.0%	47.6%	68.0%	70.0%	47.6%	68.0%	23.3%	15.9%
Group non-financial	68.3%	30.0%	20.5%	68.3%	30.0%	20.5%	68.3%	10.0%	6.8%
ELG financial	–	–	–	–	–	–	100.0%	46.7%	46.7%
ELG non-financial	–	–	–	–	–	–	50.0%	20.0%	10.0%
Total bonus payout (% maximum)		**68.1%**			**68.1%**			**79.4%**	

The financial and non-financial targets for the 2018 annual bonus and the extent to which they were met are as follows:

The financial target, which equated to 70% of the maximum potential bonus, was £15.27m based on the profit of the Company before certain adjustments including fair value adjustments, certain IFRS 9 transitional related items, amortisation of acquired intangibles, exceptional items and tax. The actual profit on this basis was £15.06m, being 98.6% of target and above the 90% threshold for payment of the minimum 25% of the financial element of the bonus. The next 43% of the financial element accrued on a straight-line basis between 90% and 100% of target. Therefore, the financial element of the bonus vested at 68.1% of the maximum financial element of 70% (47.6% of maximum bonus for John Van Kuffeler and Nick Teunon, and 15.9% for Miles Cresswell-Turner).

The non-financial element was based on six individual components representing 30% of maximum bonus in total. These non-financial targets, which are described below, were met as follows:

1. For each of the trading entities within the Group, positive reports from KPMG (the Group's outsourced internal audit provider) on lending practices (including affordability assessment and policies for dealing with vulnerable customers). Met as to 60%.
2. For each of the trading entities within the Group, positive reports from KPMG on collections practices (including forbearance and policies for dealing with vulnerable customers). Met as to 60%.
3. A minimum cash/undrawn headroom of £25m for the Company at 31 December 2018 with a dividend payment policy of 50% of post-tax profit before fair value adjustments, amortisation of acquired intangibles and exceptional items. Met in full.
4. Delivery of good customer outcomes by each division as measured by a good customer outcomes dashboard to be approved by the Board. Met as to 80%.
5. No material breaches of NSF's Risk Appetite Policy. Met as to 60%.
6. Updated reports for each division and NSF plc on internal controls. Met as to 50%.

As a result, the non-financial element was met as to 68.3% (20.5% of maximum).

Miles Cresswell-Turner's annual bonus was subject to additional financial and non-financial performance conditions in relation to Everyday Loans Group. The financial target was £31.46m based on the profit of the Company before fair value adjustments, interest, amortisation of acquired intangibles, exceptional items and tax. The actual profit on this basis was £34.98m, being 112% of target and above the 90% threshold for payment of the minimum 25% of the financial element of the bonus. The next 50% of the financial element accrued on a straight-line basis between 90% and 100% of target. The final 25% of the financial element was accrued on a straight-line basis between 100% and 105% of target. Therefore, the financial element of the bonus vested at 100% of the maximum financial element of 70%.

The non-financial element was based on six individual components representing 20% of maximum bonus in total. These non-financial targets, which are described below, were met as follows:

1. Development of a concise customer outcomes dashboard, and attainment of required levels of outcome. Not met.
2. Continued progress on building a more integrated operating model across the branch network. Not met.
3. Successful opening of 12 new branches and recruitment, training and retention of the staff to run these. Met as to 100%.
4. Successful integration of George Banco and TrustTwo into the Guaranteed Loan Division, operating off a single platform for new business and a clear plan for running off the back book. Not met.
5. Delivery of a clear plan to achieve 20% ROA for both ELL and GLD by 2020 with visible progress towards this target in 2018. Met as to 100%.
6. Roll-out of the new affordability model across ELL and GLD by the end of Q3 2018. Met as to 100%.

As a result, the non-financial element was met as to 50% (15% of maximum).

The total award for Executive Directors of 68.1% of the maximum for John van Kuffeler and Nick Teunon and 79.4% of the maximum for Miles Cresswell-Turner. The Remuneration Committee has therefore determined that the bonuses awarded to the Executive Directors are £221,300 for John van Kuffeler, £190,700 for Nick Teunon and £222,200 for Miles Cresswell-Turner. The 2018 bonuses will be paid in cash. No part of the bonus will be subject to deferral.

Long-Term Incentive awards vesting in 2018
No LTI awards vested in 2018.

Long-Term Incentive awards made in 2018
There were no awards under the LTI made in 2018. The Company has an ongoing LTI which commenced on 1 Jan 2017 and runs until 31 December 2020. This LTI scheme is outlined in the Remuneration Policy summary table on page 71.

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 2019

Base salary
In setting salary levels for the 2019 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 2019 and the relative increases are set out below.

	Base salary £000		
	2019	2018	% change
John van Kuffeler	**£333**	£325	2.5%
Nick Teunon	**£287**	£280	2.5%
Miles Cresswell-Turner	**£287**	£280	2.5%

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 2019 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 2019 financial year, performance measures include financial measures based on profit of the Company before fair value adjustments, amortisation of acquired intangibles, exceptional items and tax. Non-financial measures 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. Financial and non-financial measures are split 70% financial and 30% non-financial. Miles Cresswell-Turner's performance measures will be based as to one-third on Group performance and two-thirds on performance of ELG.

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 end 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 payouts.

Long-term incentive awards

No long-term incentive awards will be made during the year.

3. Consideration by the Committee of matters relating to the Directors' remuneration for 2018 and 2019

The Committee seeks to comply with the UK Corporate Governance Code but does not meet requirement D.2.1 of the Code as the Chairman of the Company is also the Chair of the Committee. The Committee and the Board of the Company do not consider this provision to be appropriate given the size and nature of the Company. 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.nsfgroupplc.com.

Members of the Committee during 2018	Independent	January 2018	February 2018	March 2018	April 2018	December 2018	Attendance
Charles Gregson	No	✓	✓	✓	✓	✓	100%
Heather McGregor	Yes	✓	✓	✓	✓	✓	100%
Niall Booker	Yes	✓	✓	✓	✓	✓	100%

All Committee members attended all Remuneration Committee meetings, unless otherwise stated, that took place while they were members of the Committee. 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 2018 from PricewaterhouseCoopers ('PwC') during the year. PwC were appointed by the Committee 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 £72,200. 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 SAYE and long-term incentive arrangements.

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

January 2018

- Review of Executive Directors' bonuses performance targets for 2018.
- Discussion of the remuneration for Executive Directors with respect to 2018.
- Discussion of the approval of GLD LTI.
- Agreement of work plan for 2018.

February 2018

- Review of Executive Directors' bonuses performance targets for 2018.
- Discussion of the remuneration for Executive Directors with respect to 2018.
- Consideration of Executive Director Bonuses for 2017.

March 2018

- Consideration of Executive Director Bonuses for 2017 with respect to Non-financial targets.
- Approval of the Terms of Reference.

April 2018

- Consideration and Approval of 2018 Executive Director non-financial elements of Bonus scheme.
- Consideration of succession planning.

December 2018

- Benchmarking of Non-Executive Director fees with respect to 2019.
- Benchmarking of the remuneration for Executive Directors with respect to 2019.
- Consideration of the impact of IFRS 9 on the Executive Director 2018 Bonus scheme.

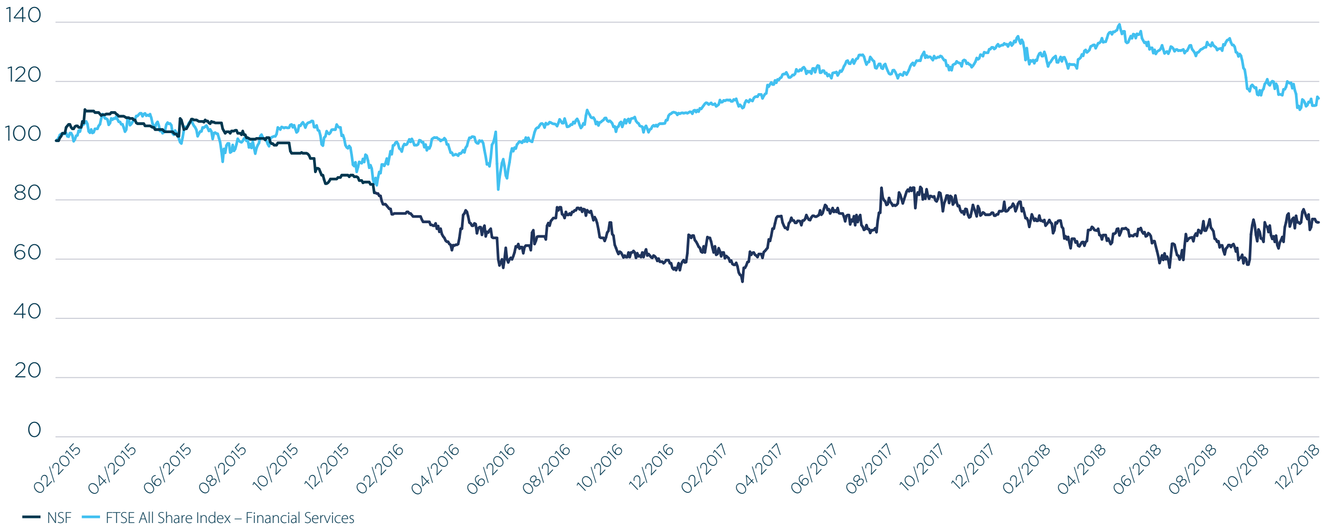
Directors' remuneration report *continued*

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 benchmark the Company's performance.

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 2018.

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 liquidity in the Group's shares; the Group's scale relative to other potential investment opportunities; limited research coverage by sell-side analysts; softer than expected financial performance by Loans at Home in 2016; severe underperformance by the Group's major quoted competitor in 2017 and 2018 and concerns over future market and regulatory conditions in the UK consumer finance segment.

Group Chief Executive	**2018**	2017	2016	2015
Single figure of total remuneration (£000)	**614**	498	351	473
Bonus payout (% maximum)	**68.1%**	50.5%	0%	100%
Long-term incentive vesting rates (% maximum)	**n/a**	n/a	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 2017 to 2018	Base salary	Benefits	Annual bonus
Group Chief Executive	13%	6%	52.4%
Employee pay	4.5%	1%	5%

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	**2018**	2017	% change
Employee spend	**£38.7m**	£28.8m	34%
Distributions to shareholders (including share buy-backs)	**£9.3m**	£5.8m	60%

Note
1 Employee spend for 2017 includes pay for the employees of George Banco following the acquisition in August 2017.

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	**2018**	**125**	**–**	**125**
Charles Gregson	2017	50	–	50
Heather McGregor	**2018**	**75**	**–**	**75**
Heather McGregor	2017	75	–	75
Niall Booker	**2018**	**75**	**–**	**75**
Niall Booker	2017	50	–	50

Non-Executive Directors are reimbursed travel and subsistence expenses that are incurred for business reasons. Any tax that arises on these reimbursed expenses is paid by the Company.

Fees to be provided in 2019 to the Non-Executive Directors

The following table sets out the annual fee rates for the Non-Executive Directors:

		2019	2018	% change
Chairman's fee	Charles Gregson	125	125	0
Independent Non-Executive Director fee	Heather McGregor	75	75	0
	Niall Booker	75	75	0

Note
1 Charles Gregson will receive 50% of his fee (post tax) in NSF shares.

6. Directors' shareholding and share interests

Shareholding and other interests at 31 December 2018 – 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 2018					Interest in Founder Shares		
	Number of beneficially owned shares	% of salary held	Shareholding requirement met	Options held subject to service	Total number of shares/ options	Subject to conditions	Vested but unexercised	Total at 31 December 2018
John van Kuffeler	2,114,474	419%	Yes	–	2,114,474	30	–	30
Nick Teunon	87,980	20%	No	36,349	124,329	25	–	25
Miles Cresswell-Turner	833,780	192%	Yes	36,349	870,129	25	–	25
Charles Gregson	310,984	–	–	–	310,984	10	–	10
Heather McGregor	78,700	–	–	–	78,700	–	–	–
Niall Booker	426,700	–	–	–	426,700	–	–	–
Total	**3,852,618**			**72,698**	**3,925,316**	**90**	**–**	**90**

	Shares subject to performance conditions	Options subject to performance conditions	Vested	Total at 31 December 2018
John van Kuffeler	–	375	–	375
Nick Teunon	–	250	–	250
Miles Cresswell-Turner	250	–	–	250
Charles Gregson	–	–	–	–
Heather McGregor	–	–	–	–
Niall Booker	–	–	–	–
Total	**250**	**625**	**–**	**875**

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 (£0.66 at 31 December 2018) and base salaries at 1 January 2019.
3 The options held subject to service were granted under the SAYE plan.
4 No scheme interests were awarded during the year (2017: nil).
5 John van Kuffeler and Nick Teunon also hold nil-cost options over NSF shares under the NSF LTI. Miles Cresswell-Turner also holds shares in a subsidiary company under the NSF LTI; these shares will be exchanged for NSF shares on vesting. In both cases, the number of NSF shares that these Executive Directors will eventually acquire (which could be nil) will only be determined at the vesting date of 31 December 2020 and will be based on the growth in value of NSF above the share price hurdle of £1.10.

No changes took place in the interests of the Directors between 1 January 2019 and 12 March 2019.

Directors' remuneration report *continued*

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 10-year period to employees under all its share plans and can issue a maximum of 5% of its issued share capital in a rolling 10-year period under executive (discretionary) share plans.

Non-Executive positions held by Executive Directors

John van Kuffeler retained fees of £60,000 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 2017 Annual Report on Remuneration at the AGM on 14 May 2018.

	Votes for	%	Votes against	%	Votes withheld
Directors' Remuneration Policy	244,276,844	95.41	11,742,238	4.59	500
2017 Annual Report on Remuneration	246,822,877	96.41	9,196,705	3.59	0

By order of the Board.

Charles Gregson
Chairman of the Remuneration Committee
14 March 2019

Directors' report
for the year ended 31 December 2018

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 2018. Both the Strategic Report on pages 7 to 49 and this 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 provided by such law. Other information required 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 7 to 49 of the Annual Report, 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 30 to 32 of the Strategic Report.

Trading results and dividends
The Group's consolidated loss after taxation for the financial year was £1,679,000 (2017: loss of £10,335,000).

An interim dividend of 0.6p per share was paid to shareholders on 17 October 2018 and a further final dividend of 2.00p has been recommended by the Board, payable to shareholders on the share register on 3 May 2019. If approved, the final dividend would be paid on 7 June 2019.

Future business developments
Information on the Company and its subsidiaries' future developments can be found in the Chairman's Statement on pages 4 to 6, the Group Chief Executive's report on pages 12 to 16 and the 2018 Financial Review and Divisional overview on pages 33 to 45.

Share capital
As at 31 December 2018 the share capital of the Company consisted of 317,049,682 Ordinary Shares of £0.05 each (312,049,682 of which were in issue and 5,000,000 shares held in treasury) 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 (save that Ordinary Shares held in treasury are not eligible to receive dividends or other distributions declared). 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 25 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 acquired 2,507,308 of its own shares during the financial year ended 31 December 2018 (see further details below).

Further details on the Company's share capital can be found in note 23 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 2019 the following investors have a substantial interest in the issued Ordinary Share capital. The Company did not receive any further notifications pursuant to DTR 5 in the period from 28 February 2019, to 8 March 2019 (being a date not more than one month prior to the date of the Company's Notice of Annual General Meeting).

Invesco Asset Management	28.6%
Woodford Investment Management	25.7%
Marathon Asset Management LLP	12.8%
Aberforth Partners LLP	12.8%
Quilter Cheviot Asset Management	2.9%

In accordance with the Disclosure and Transparency Rules DTR-5 as at 31 December 2018 the following investors had a substantial interest in the issued Ordinary Share capital.

Invesco Asset Management	28.7%
Woodford Investment Management	25.5%
Aberforth Partners LLP	12.8%
Marathon Asset Management LLP	12.2%
Toscafund Asset Management LLP	3.0%
Quilter Cheviot Asset Management	3.0%

The Directors' beneficial interests in the allotted shares of the Company as at 31 December 2018 are outlined below:

	Number of Ordinary Shares held
John van Kuffeler	2,114,474
Nick Teunon	87,980
Miles Cresswell-Turner	833,780
Niall Booker	426,700
Charles Gregson	310,984
Heather McGregor	78,700

As granted by shareholders at the 2018 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 2019 AGM.

On 8 November 2017 the Group launched a share buy-back programme to repurchase up to five million Ordinary Shares of five pence in the Company (the 'Programme'). The Programme commenced on 8 November 2017 and ended on 1 May 2018 (the 'Engagement Period'). Purchases continued during any closed periods of the Company during the Engagement Period. The aggregate purchase cost of shares purchased under the Programme reached £3,426,349 (excluding costs) and amounted to 5,000,000 shares all held in treasury.

In accordance with the Group's Remuneration Policy approved by shareholders on 14 May 2018, over the course of the year, the Group purchased a total of 54,901 Ordinary Shares at a total cost of £34,030 (excluding dealing costs) in order to satisfy 50% of the post-tax fees due to Charles Gregson with respect to his role as Chairman. The remaining 50% of fees due has been paid in cash.

Directors' report *continued*

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
Niall Booker	Non-Executive Director
Heather McGregor	Non-Executive Director

The Directors and their profiles are detailed on pages 50 to 51. All of these Directors above served in office throughout the year under review and up to the signing of the Annual Report.

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.

No indemnities were provided and no payments were made during the year. There were no other qualifying indemnities in place during the period.

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 and a Group-wide intranet help to 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.

On 19 October 2018, NSF signed the 'Dying to Work Charter' an initiative providing employees of signatory companies with the comfort of knowing that their company will support their choices regarding work in the event of a terminal illness diagnosis.

"At Non-Standard Finance we strongly believe in supporting our employees at times of personal stress and difficulty. This demonstrates that we care deeply about our workforce and through this creates a culture whereby our employees genuinely care about our 180,000 customers. It is therefore a pleasure to sign the 'Dying To Work Charter.'"
John van Kuffeler, Group Chief Executive

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. We are an active participant of the 'Future Boards' scheme and aim to comply with the additional guidance in the revised Corporate Governance Code where it is practical to do so.

The Company is committed to adopting employment practices which follow best practice and has set-up an employee 'Save As You Earn' Share Scheme which provides an opportunity for employees to share in the Company's future success. It is expected that additional programmes aimed at enhancing employee engagement further will be developed as the Group expands.

Self-employed agents
The Group's home credit division utilises a network of self-employed agents, each of which 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.

Related party transactions
Refer to note 29 in the notes to the financial statements.

Post-balance sheet events
Since 31 December 2018 there have been no events that require disclosure in or adjustment to the financial statements.

Environmental factors
The Board regularly reviews 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. As noted on page 49, the Group has started to capture some environmental data and will provide further updates in future reports.

Charitable and political donations
The Group made charitable donations totalling £84,082 to a variety of charities in the year ended 31 December 2018. These included The Alzheimer's Society, The Money Advice Trust, Loan Smart, Cancer Research and JDRF (Juvenile Diabetes Research Foundation).

The Group made no political donations in the year ended 31 December 2018.

Health and safety
Health and safety standards and benchmarks have been established in the Company and its divisions and compliance against these standards 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.

Modern Slavery
In accordance with the Modern Slavery Act 2015, the Group has policies and statements in place to comply with the requirements of the Modern Slavery Act 2015. A copy of the Group's Modern Slavery Statement is available on the Group's website: www.nsfgroupplc.com.

Annual General Meeting
The Annual General Meeting of the Company is to be held at Maitland/AMO, 13 King's Boulevard, London, N1C 4BU at 11.00 am on 1 May 2019. 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.

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 66 to 82
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

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

Directors' statement as to disclosure of information to auditor
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 2018 and how they are being managed or mitigated can be found in the Strategic Report on pages 7 to 49 and also in the Risk Committee Report on page 65. 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 in note 30 to 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.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report *continued*

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 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;
- the Strategic Report includes a fair review of the development and 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 that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Annual Report and Financial Statements 2018 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 14 March 2019 and signed by the order of the Board.

Sarah Day
Company Secretary
14 March 2019

Independent auditor's report

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Non-Standard Finance plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 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 Parent 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.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and Parent Company statements of financial position;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statements; and
- the related notes 1 to 31.

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • carrying value of goodwill; • provision for impairment losses against loans and receivables to customers; and • revenue recognition.
Materiality	The materiality that we used for the Group financial statements was £760,000, which was determined based on 5% of profit before tax, fair value adjustments of £7.7m and amortisation of acquired intangible assets of £8.7m.
Scoping	Our Group audit scope focused on the Parent Company and each of the trading subsidiaries within the Group which together account for 100% of the Group's losses before tax and customer receivables balances.
Significant changes in our approach	In the prior year, we identified a key audit matter arising from the acquisition accounting for George Banco. There were no such acquisitions in the current year.

Independent auditor's report *continued*

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed 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 and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 30 to 32 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 85 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; or
- the Directors' explanation on page 62 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 are also required to report whether the Directors' statement relating to the prospects of the Group is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Carrying value of goodwill

Key audit matter description	The acquisitions of Everyday Loans Group, Loans at Home and George Banco have led to the recognition of £140.7m of goodwill (2017: £140.7m) in the Consolidated statement of financial position. Under IAS 36, impairment testing for goodwill should always be carried out in the context of a cash generating unit ("CGU") as goodwill does not generate cash flows independently of other assets. When goodwill has been allocated to a CGU, IAS 36 requires that unit to be tested for impairment at least annually and whenever there is an indication that the unit may be impaired. From our risk assessment procedures, we focused our work on the valuation of the Loans at Home CGU (£40.2m for both 2017 and 2018 year-end), given it is most sensitive to management's inputs and assumptions. Management performed a goodwill impairment assessment as at 31 December 2018 by determining the recoverable amount of Loans at Home, based on fair value less cost to sell, and comparing this to the carrying value of the CGU. Management determined that no impairment was required to the carrying value of goodwill. The critical judgements and estimates involved in management's impairment assessment are: • forecast profit after tax; and • the calculation and application of an appropriate market multiple to the forecasts Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 60 to 62 and notes 1, 2 and 14 to the financial statements.
How the scope of our audit responded to the key audit matter	We assessed the controls relating to the Loans at Home goodwill impairment review. We challenged the reasonableness of management's key assumptions used in the impairment assessment and our challenge considered the appropriateness of the methodology for compliance with IAS 36. Additionally, we independently calculated a fair value of the CGU and performed a sensitivity analysis for each of the key assumptions to assess the impact on the recoverable amount. We focused our audit procedures on the areas to which the carrying value of goodwill is most sensitive. In relation to management's forecast earnings we: • challenged the reliability of management's forecasting based on historical data; • reviewed the consistency of management's assumptions with their assessment of viability and going concern, and considered recent performance to assess the validity of management's estimates; and • performed a sensitivity analysis over forecast and break-even growth rates to assess these for reasonableness in light of historic performance. In relation to the market multiple, we used our valuation experts to challenge the multiple by determining an independent benchmark.
Key observations	We found management's approach for the goodwill impairment assessment to be compliant with IAS 36. We agree that the market multiple valuation methods are reasonable approaches for determining an equity fair value. The market multiple and the forecast earnings adopted by management are within the acceptable range that we independently calculated. Applying management's key assumptions gives a fair value estimate of between £64m to £67m as at year-end for the Loans at Home CGU. Compared to the carrying value of £62m, this leaves marginal headroom of between £2m to £5m. Accordingly, no impairment was recognised. We noted that the carrying value of goodwill allocated to the CGU is highly sensitive to future forecast earnings, as disclosed in note 14 to the financial statements.

Provision for impairment losses against loans and receivables to customers

Key audit matter description

The Group holds an IFRS 9 impairment provision of £45m against gross customer receivables of £360m (2017: IAS 39 impairment provision of £24.5m against restated gross customer receivables of £292m).

From 1 January 2018, the Group has implemented IFRS 9, which has resulted in the Group applying an expected credit loss ("ECL") model to determine the provision for impairment losses against loans and receivables to customers. In particular, for financial assets held at amortised cost, IFRS 9 requires the carrying value of the asset to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimation on assumptions relating to customer default rates, historical collection rates, exposure at default, likely loss given default, assessing significant increases in credit risk and future economic scenario modelling. These assumptions are informed using historical behaviour and experience. They are also affected by management's consideration of the future economic environment including the potential effect of the withdrawal of the United Kingdom from the European Union.

The Group has not restated comparative information, so the transitional impact to equity from the application of IFRS 9 on 1 January 2018 was £13m (£11m including impact of a deferred tax liability).

The assessment of provisions for impairment losses requires management to make significant judgements in respect of the three main business divisions:

Home credit
Management utilises historical collections curves which segment provisioning percentages by product, duration and arrears to determine expected cash flows. From our risk assessment procedures, we focussed on the reliability of collection curves used in the calculation including the completeness and accuracy of associated data inputs.

Branch-based lending and guarantor loans
Under IFRS 9, these divisions use a parameter-based methodology for the expected credit loss calculation that uses recent historical experience to determine Probability of Default ("PD") and Loss Given Default ("LGD") percentages split by product type. Based on our risk assessment, we focused on the appropriateness of modelling methodologies adopted and the timely identification of triggers to transition from 12-month to lifetime losses.

Given the significant level of management judgement involved, we have determined that there is the potential for fraud through the manipulation of this balance.

Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 60 to 62 and notes 1, 2 and 18 to the financial statements.

How the scope of our audit responded to the key audit matter

We assessed the controls relating to the identification, valuation and recording of impairment provisions. For each of the Group's reportable segments we evaluated whether the methodology applied by management is compliant with the new requirements of IFRS 9, effective from 1 January 2018.

We challenged the appropriateness of management's assumptions underlying the impairment provision calculations. This involved evaluating management's conclusions regarding the use of forward-looking information when assessing compliance with the standard, and benchmarking against peers in the industry. As part of this work, we considered the potential impact of Brexit on the calculation of the provision.

To test the completeness and accuracy of inputs into the models, we traced to and from source documentation. We also used our analytic tools to perform independent risk assessment tests and to identify inconsistencies and exceptions in input and output data.

Where relevant, our IT specialists tested the IT control environment, scripts and coding used internally by management, and their service provider, to validate the practical application of management's IFRS 9 methodology.

We performed sensitivity analysis over the key assumptions of the models to assess the potential for management bias and we considered the strategy of the businesses to assess changes to risk appetite and product mix and how these may influence impairment.

We reviewed the accuracy of management's overlay provisions with reference to supporting calculations and cash collections, and challenged the completeness through a review of industry updates and analysis of key performance indicators ('KPIs').

Provision for impairment losses against loans and receivables to customers continued

Key observations	The provision models across the Group were found to be compliant with the requirements of IFRS 9. We concluded that the assumptions underpinning the model were determined and applied appropriately. Accordingly, the recognised impairment provision was reasonably stated. In particular, we found that the expected cash collections used in the models are materially consistent with recent performance and budgeted collections. The impairment provisions held against the loan book are in line with current collections performance, and management's application of macroeconomic scenarios is reasonable for each of the different segments.

Revenue recognition

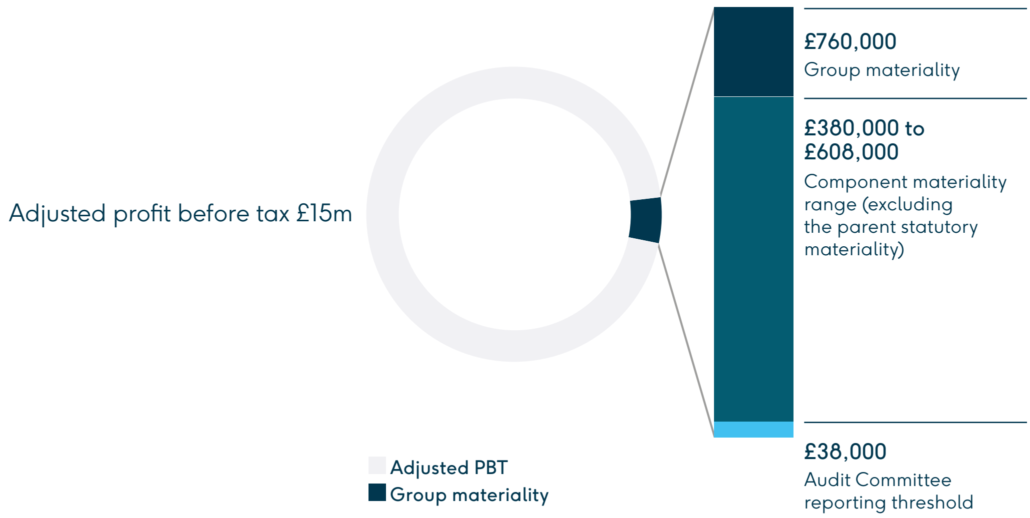
Key audit matter description	The Group's main revenue stream is interest income of £158m (2017: £108m) which should be recognised based on the effective interest rate ('EIR') method in accordance with IFRS 9. The EIR method spreads directly attributable revenues and costs over the behavioural life of the loan. The Group's EIR models are heavily reliant on the quality of the underlying data flowing into the models. The key judgements in determining revenue recognition include: • the period over which forecast cash flows are modelled to determine the EIR, as changes to this assumption could significantly affect the revenue recognised in any given period. • which elements are integral to loan contracts and therefore included in the EIR of the loan. • manual adjustments to revenue that pose a significant risk of material misstatement. • whether loans have been modified substantially and the impact thereof on interest recognition. Based on our risk assessment, we focused our work for each of the business divisions as follows: *Home credit* – the early redemption assumptions in the EIR calculation are supported by the behavioural life of the underlying products. *Branch-based lending and guarantor loans* – the treatment of broker commissions in the EIR calculation for customer loans. Given the significant level of management judgement involved, we have determined that there is a potential risk of fraud through possible manipulation of the revenue balance. Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 60 to 62 and notes 1 and 4 to the financial statements.
How the scope of our audit responded to the key audit matter	We assessed the controls relating to the recording of revenue, including manual adjustments. We considered the appropriateness of the methodology for compliance with IFRS 9 and we challenged management's assumptions in respect of cash flow estimates by comparing to underlying data sources and benchmarks. In particular, we focused on the timing and level of early settlements that directly impact estimated behavioural lives. Considering the contractual terms of the loans, we challenged whether all directly attributable costs and fees were identified and appropriately included in the EIR calculation. For a sample of loans, we independently recalculated the effective interest rates and compared these to the EIRs applied in the revenue models. On a sample basis, we also assessed the treatment of broker commissions upon substantial modification of loans.
Key observations	The revenue recognition models were found to be compliant with the requirements of IFRS 9, the assumptions underpinning the models were determined and applied appropriately, and accordingly recognised revenue was reasonable stated.

Independent auditor's report *continued*

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 financial statements	Parent Company financial statements
Materiality	£760,000 (2017: £660,000)	£262,000 (2017: £219,000)
Basis for determining materiality	We used 5% of adjusted pre-tax profit. Adjusted pre-tax profit is before fair value adjustments of £7.7m, amortisation of acquired intangible assets of £8.7m and exceptional items of £nil as described in the Consolidated Statement of Comprehensive Income. For the year ended 31 December 2017, we used 5% of pre-tax profit, before fair value adjustments of £11.9m, amortisation of acquired intangible assets of £7.9m, and exceptional items of £6.3m.	We used 5% of pre-tax profit. For the year ended 31 December 2017, we used 5% of pre-tax profit.
Rationale for the benchmark applied	Profit based measures are the financial measures most relevant to users of the financial statements. We considered 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 to that of comparable listed companies.	We considered the most relevant basis for materiality to be the profits earned from continuous business operations.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £38,000 (2017: £33,000), 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 misstatements 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 which together account for 100% of the Group's losses before tax and customer receivables balances. We have performed audit procedures over the Group consolidation and consolidation adjustments and we have audited all the subsidiaries using a materiality range of £380,000 to £608,000. The scope is consistent with prior year.

All entities within the Group have the same engagement partner.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions that would be specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) were the Company premium listed do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors
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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: revenue recognition, loan loss provisioning and management override of controls; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included relevant provisions of the UK Companies Act, Listing Rules and tax legislation. We also considered those laws and regulations that had a fundamental effect on the operations of the Group, such as FCA regulation.

Audit response to risks identified
As a result of performing the above, we identified revenue recognition and the provision for impairment losses against loans and receivables to customers as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006
In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- 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 Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or 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 in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were first appointed by the Board of Directors of Non-Standard Finance plc on 22 October 2014 to audit the financial statements for the period ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the periods ending 31 December 2015 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Simon Stephens FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 March 2019

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	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 Dec 2018 £'000
Revenue	4	**166,502**	**(7,678)**	**158,824**
Other operating income		**1,626**	**–**	**1,626**
Modification loss		**(482)**	**–**	**(482)**
Impairment		**(42,688)**	**–**	**(42,688)**
Administrative expenses		**(89,082)**	**(8,681)**	**(97,763)**
Operating profit/(loss)	5	**35,876**	**(16,359)**	**19,517**
Exceptional items	1,7	**–**	**–**	**–**
Profit/(loss) on ordinary activities before interest and tax		**35,876**	**(16,359)**	**19,517**
Finance cost	10	**(21,107)**	**–**	**(21,107)**
Profit/(loss) on ordinary activities before tax		**14,769**	**(16,359)**	**(1,590)**
Tax on profit/(loss) on ordinary activities	12	**(3,197)**	**3,108**	**(89)**
Profit/(loss) for the year		**11,572**	**(13,251)**	**(1,679)**
Total comprehensive loss for the year				**(1,679)**

Loss attributable to:

• Owners of the parent	**(1,679)**
• Non-controlling interests	**–**

Loss per share

	Note	Year ended 31 Dec 2018 Pence
Basic and diluted	11	**(0.54)**

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

For the year ended 31 December 2017

	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 Dec 2017 £'000
Revenue	4	119,756	(11,985)	107,771
Other operating income		1,926	–	1,926
Impairment/cost of sales		(28,795)	–	(28,795)
Administrative expenses		(69,203)	(7,897)	(77,100)
Operating profit/(loss)	5	23,684	(19,882)	3,802
Exceptional items	1,7	–	(6,342)	(6,342)
Profit/(loss) on ordinary activities before interest and tax		23,684	(26,224)	(2,540)
Finance cost	10	(10,481)	–	(10,481)
Profit/(loss) on ordinary activities before tax		13,203	(26,224)	(13,021)
Tax on profit/(loss) on ordinary activities	12	(2,313)	4,999	2,686
Profit/(loss) for the year		10,890	(21,225)	(10,335)
Total comprehensive loss for the year				(10,335)

Loss attributable to:

• Owners of the parent	(10,335)
• Non-controlling interests	–

Loss per share

	Note	Year ended 31 Dec 2017 Pence
Basic and diluted	11	(3.26)

Consolidated statement of financial position
as at 31 December 2018

	Note	31 Dec 2018 £'000	31 Dec 2017[1] £'000
ASSETS			
Non-current assets			
Goodwill	14	**140,668**	140,668
Intangible assets	15	**13,431**	21,077
Other assets	20	**241**	–
Property, plant and equipment	16	**7,723**	5,562
		162,063	167,307
Current assets			
Amounts receivable from customers	18	**314,614**	268,096
Trade and other receivables	18	**3,967**	1,551
Cash and cash equivalents	19	**13,894**	10,954
		332,475	280,601
Total assets		**494,538**	447,908
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables and provisions	21	**17,242**	10,353
Total current liabilities		**17,242**	10,353
Non-current liabilities			
Deferred tax liability	22	**252**	4,996
Bank loans	21	**266,322**	199,316
Total non-current liabilities		**266,574**	204,312
Equity			
Share capital	23	**15,852**	15,852
Share premium	24	**254,995**	254,995
Other reserves	25	**(2,011)**	(1,066)
Retained loss		**(58,368)**	(36,793)
		210,468	232,988
Non-controlling interests		**255**	255
Total equity		**210,723**	233,243
Total equity and liabilities		**494,538**	447,908

1 2017 balance sheet has been adjusted to increase amounts receivable from customers by £8.3m with a corresponding decrease to prepayments for the classification of unamortised broker commissions. Refer to note 18 for detail. Had the 2016 balance sheet also been adjusted to reflect this classification, amounts receivable from customers and prepayments would have been adjusted by £4.1m. 2017 balance sheet intangibles of £3.9m previously presented as property, plant and equipment have been re-presented as part of intangible assets, refer to note 15 for detail. Had the 2016 balance sheet also been re-presented to reflect this classification, intangibles and property, plant and equipment would have been adjusted by £1.8m.

These financial statements were approved by the Board of Directors on 14 March 2019.

Signed on behalf of the Board of Directors.

John van Kuffeler
Group Chief Executive

Nick Teunon
Chief Financial Officer

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Retained loss £'000	Non-controlling interest £'000	Total £'000
At 31 December 2016		15,852	254,995	–	(22,019)	255	249,083
Total comprehensive loss for the year		–	–	–	(10,335)	–	(10,335)
Transactions with owners, recorded directly in equity:							
Dividends paid	13	–	–	–	(4,439)	–	(4,439)
Credit to equity for equity-settled share-based payments	25	–	–	291	–	–	291
Purchase of own shares	25	–	–	(1,357)	–	–	(1,357)
At 31 December 2017		15,852	254,995	(1,066)	(36,793)	255	233,243
Total comprehensive loss for the year		**–**	**–**	**–**	**(1,679)**	**–**	**(1,679)**
IFRS 9 transition opening balance adjustment	3	**–**	**–**	**–**	**(12,718)**	**–**	**(12,718)**
Transactions with owners, recorded directly in equity:							
Dividends paid	13	**–**	**–**	**–**	**(7,177)**	**–**	**(7,177)**
Credit to equity for equity-settled share-based payments	25	**–**	**–**	**1,157**	**–**	**–**	**1,157**
Purchase of own shares	25	**–**	**–**	**(2,102)**	**–**	**–**	**(2,102)**
At 31 December 2018		**15,852**	**254,995**	**(2,011)**	**(58,368)**	**255**	**210,723**

Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	**Year ended 31 Dec 2018 £'000**	Year ended 31 Dec 2017 £'000
Net cash used in operating activities	27	**(34,763)**	(37,000)
Cash flows from investing activities			
Purchase of property, plant and equipment and software intangibles		**(6,083)**	(5,536)
Proceeds from sale of property, plant and equipment		**180**	605
Acquisition of subsidiary	26	**–**	(16,442)
Net cash used in investing activities		**(5,903)**	(21,373)
Cash flows from financing activities			
Finance cost		**(14,121)**	(7,974)
Debt raising		**67,006**	77,882
Dividends paid	13	**(7,177)**	(4,439)
Purchase of own shares	25	**(2,102)**	(1,357)
Net cash from financing activities		**43,606**	64,112
Net increase in cash and cash equivalents		**2,940**	5,739
Cash and cash equivalents at beginning of year		**10,954**	5,215
Cash and cash equivalents at end of year	19	**13,894**	10,954

Company statement of financial position
as at 31 December 2018

	Note	31 Dec 2018 £'000	31 Dec 2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**180**	158
Investments	17	**212,674**	212,336
		212,854	212,494
Current assets			
Trade and other receivables	18	**61,729**	60,984
Cash and cash equivalents	19	**393**	320
		62,122	61,304
Total assets		**274,976**	273,798
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	21	**4,786**	1,309
Total liabilities		**4,786**	1,309
Equity			
Share capital	23	**15,852**	15,852
Share premium	24	**254,995**	254,995
Other reserves	25	**(2,026)**	(1,079)
Retained profit		**1,369**	2,721
Total equity		**270,190**	272,489
Total equity and liabilities		**274,976**	273,798

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.

The profit for the financial year reported in the financial statements for the Company was £5,826,152 (2017: profit of £4,718,370).

These financial statements were approved by the Board of Directors on 14 March 2019.

Signed on behalf of the Board of Directors.

John van Kuffeler
Group Chief Executive

Nick Teunon
Chief Financial Officer

Company number – 09122252

Company statement of changes in equity
for the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Retained profit £'000	Total £'000
At 31 December 2016		15,852	254,995	–	2,441	273,288
Total comprehensive income for the year		–	–	–	4,719	4,719
Transactions with owners, recorded directly in equity:						
Dividends paid	13	–	–	–	(4,439)	(4,439)
Credit to equity for equity-settled share-based payments	25	–	–	278	–	278
Purchase of own shares	25	–	–	(1,357)	–	(1,357)
At 31 December 2017		15,852	254,995	(1,079)	2,721	272,489
Total comprehensive income for the year		**–**	**–**	**–**	**5,826**	**5,826**
Transactions with owners, recorded directly in equity:						
Dividends paid	13	**–**	**–**	**–**	**(7,177)**	**(7,177)**
Credit to equity for equity-settled share-based payments	25	**–**	**–**	**1,155**	**–**	**1,155**
Purchase of own shares	25	**–**	**–**	**(2,102)**	**–**	**(2,102)**
At 31 December 2018		**15,852**	**254,995**	**(2,026)**	**1,369**	**270,190**

Company statement of cash flows
for the year ended 31 December 2018

	Note	**Year ended 31 Dec 2018 £'000**	Year ended 31 Dec 2017 £'000
Net cash used in operating activities	27	**(754)**	(3,093)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(91)**	(18)
Net cash used in investing activities		**(91)**	(18)
Cash flows from financing activities			
Finance cost		**(3)**	(45)
Dividends paid	13	**(7,177)**	(4,439)
Dividend income		**10,200**	8,894
Purchase of own shares	25	**(2,102)**	(1,357)
Net cash from financing activities		**918**	3,053
Net increase/(decrease) in cash and cash equivalents		**73**	(58)
Cash and cash equivalents at beginning of year		**320**	378
Cash and cash equivalents at end of year	19	**393**	320

Notes to the financial statements

General information
Non-Standard Finance plc is a public limited company, limited by shares, incorporated and domiciled in the United Kingdom. The address of the registered office is 7 Turnberry Park Road, Gildersome, Morley, Leeds, LS27 7LE.

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 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, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

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 Governance Report. The Board of Directors has considered the Group's latest financial projections from the most recent budget, including:

- funding levels and headroom against committed borrowing facilities;
- cash flow and liquidity requirements; and
- forecast compliance against debt 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 2018
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 the 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 reviewing all leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will primarily affect the accounting for the Group's operating leases. The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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.

Notes to the financial statements *continued*

1. Accounting policies continued

New and amended Standards and Interpretations effective for the financial year ending 31 December 2018

On 1 January 2018, the Group implemented IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. As permitted by IFRS 9 and IFRS 15, comparative information for previous periods has not been restated. The impact on the Group's financial position of applying IFRS 9 requirements is set out in note 3. The impact of adopting IFRS 15 is not material.

On 1 January 2018, the Group reclassified unamortised broker commissions as directly attributable transaction costs related to the acquisition of amounts receivable from customers. Historically, unamortised broker commissions were classed as prepayments, effective 1 January 2018, unamortised broker commissions are included within amounts receivable from customers, refer to note 18.

Alternative Performance Measure

The Group uses Alternative Performance Measures (APMs) to monitor the financial and operational performance of each of its business divisions and the Group as a whole. The APMs seek to adjust reported metrics for the impact of non-cash and other accounting charges that make it difficult to see the underlying performance of the divisions and Group. These adjusted metrics are described as 'normalised'. Normalised figures are reported results before fair value adjustments, amortisation of acquired intangibles and exceptional items. APMs are reviewed on an annual basis and any changes require Board approval. For the year ended 31 December 2018, APMs remain unchanged from the prior year.

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 ('EIR') method. The EIR is the rate that exactly discounts estimated future cash flows of financial instruments through their expected life, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The EIR is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers repaying early and the anticipated impact of customers paying late or not at all. Under IFRS 9, the EIR is applied to the gross carrying amount of non-credit impaired customer receivables (i.e. at the amortised cost of the receivables before adjusting for any expected credit losses ('ECL')). For credit-impaired amounts receivable from customers (those in stage 3), the interest income is calculated by applying the EIR to the amortised cost of the receivable (i.e. the gross carrying amount less the allowance for expected credit losses). This differs from IAS 39 whereby the EIR was applied to the net customer receivable balance (gross carrying amount less loan loss provisions) for all customer receivables. For details of interest income for the 12 months ended 31 December 2018 under IFRS 9, see note 3.

Other operating income

Other operating income relates to amounts received as a result of debt sales made.

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 review 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.

Fair value of acquired loan book

The fair value of the acquired loan portfolio of Loans at Home, Everyday Loans, and George Banco on acquisition has been estimated by discounting expected future cash flows. The difference between the fair value and the 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, to the remaining cash flows from the loans that were in place at the time of acquisition, at each future accounting date.

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 has not incurred any exceptional costs for the year ended 31 December 2018 (2017: costs associated with acquisitions, refinancing and restructuring).

Finance costs

Finance costs comprise the interest expense on external borrowings which are recognised in the income statement in the period in which they are incurred and the funding arrangement fees which were prepaid and are being amortised to the income statement over the length of the funding arrangement. Finance costs also include any fair value movement on those derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IFRS 9.

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.

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.

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 CGU with the discounted forecasted earnings from the relevant CGU. Expected future earnings are derived from the Group's latest budget projections and the discount rate based on the Group's cost of equity at the balance sheet date.

Intangible assets

Intangible assets include acquired intangibles in respect of the customer list and agent relationships at Loans at Home and acquired intangibles in respect of the customer list, broker relationships and credit decisioning technology at Everyday Loans, together with the Everyday Loans and TrustTwo brands. Intangible assets also include acquired intangibles in respect of the customer list, broker relationships, and brand at George Banco. In addition, intangible assets include IT software development at Loans at Home.

The fair value of the customer lists of Loans at Home, Everyday Loans and George Banco on acquisition has been estimated by calculating the Net Present Value ('NPV') of the discounted cash flows from each new loan to be provided to this discrete set of known customers. The Board of Directors will test the assumptions for reasonableness at each future accounting date, 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 fair value of George Banco's broker relationships on acquisition has been estimated by calculating the NPV of the discounted cash flows from each new loan sold as a result of the strength of the broker relationship and reputation of George Banco, limited to three years of loan origination from the date of acquisition. The Board of Directors will test the assumptions for reasonableness at each future accounting date, 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 Everyday Loans, TrustTwo and George Banco 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. The Board of Directors will assess each of the Group's remaining brands for impairment using the same methodology at each future accounting date.

Notes to the financial statements *continued*

1. Accounting policies continued

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

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

Project costs associated with the development of computer software and website are capitalised where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits. These assets are amortised on a 20% straight-line basis over its estimated useful life once the development phase has been completed.

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:

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

Investments

Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

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

Financial assets are measured on initial recognition at fair value. Under IFRS 9, the classification and subsequent measurement of financial assets is principally determined by the entity's business model and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'). The standard sets out three types of business model:

- Hold to collect: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are accounted for at amortised cost.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change. These assets are accounted for at fair value through other comprehensive income ('FVOCI').
- Hold to sell: the entity originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation. These assets are held at fair value through profit or loss ('FVTPL'). An entity may also designate assets at FVTPL upon initial recognition where it reduces an accounting mismatch. An entity may elect to measure certain holdings of equity instruments at FVOCI, which would otherwise have been measured at FVTPL.

The Group has assessed its business models in order to determine the appropriate IFRS 9 classification for its financial assets. With the exception of the Group's interest rate cap derivative asset, financial assets in all three divisions are held to collect contractual cash flows until the lending matures and therefore meet the criteria to remain at amortised cost. In order to be accounted for at amortised cost, it is necessary for individual instruments to have contractual cash flows that are solely payments of principal and interest. These financial assets meet this criteria and are therefore subsequently measured at amortised cost. The Group's sole derivative asset (interest rate cap) does not meet the hold to collect criteria and thus is measured at fair value.

Financial assets and liabilities measured at amortised cost are accounted for under the EIR method. This method of calculating the amortised cost of a financial asset or liability involves allocating interest income or expense over the relevant period. The EIR rate 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 gross carrying amount on initial recognition.

The Group does not use hedge accounting.

Trade and other receivables

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 expected credit losses ('ECL')

IFRS 9 introduces a revised impairment model which requires entities to recognise ECL based on unbiased forward-looking information. This replaces the IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss has already been incurred and measures the loss at the most probable outcome.

From 1 January 2018, the Group applies the expected credit loss impairment model when determining the provisions to be applied to amounts receivable from customers. This comprises three stages: (1) on initial recognition, a loss allowance is recognised and maintained equal to 12 months of ECL; (2) if credit risk increases significantly relative to initial recognition, the loss allowance is increased to cover full lifetime ECL; and (3) when a financial asset is considered credit-impaired, the loss allowance continues to reflect lifetime ECL and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Provisions are therefore calculated based on an unbiased probability-weighted outcome which takes into account historic performance and considers the outlook for macro-economic conditions. The Group reviews its portfolio of loans and receivables for impairment at each balance sheet date.

The Group applies the IFRS 9 staging methodology with reference to the arrears stage of the customer loans, reflecting the weekly payment cycle in home credit (Loans at Home) and monthly payment cycles in branch-based lending (Everyday Loans) and the guarantor loans division (comprising TrustTwo and George Banco). The Group recognises that the customer demographic and loans provided by each entity are inherently different in nature and therefore the assumptions and the methodology used to calculate ECL under IFRS 9 have been applied to reflect this and is detailed below.

All customer accounts in home credit are categorised into the three broad stages as defined in IFRS 9. Categorisation into these stages has been made in accordance with their arrears stage which is based on equivalent missed payments in the last 13 weeks. As the new standard requires that lenders provide for the ECL from performing assets over the following year (stage 1), although the underlying cash flows from those loans which are currently performing in line with expectations are unchanged, this effectively results in the recognition of expected losses at the point of issue and captures all loans which do not fall under stages 2 and 3. This contrasts to IAS 39 where losses are only provided for when two to four contractual weekly payments (depending on length of relationship with the customer) have been missed in the previous 13 weeks.

Under IFRS 9, ECL assessment is based upon forward-looking modelled probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') parameters which are run at account level, and applied across all receivables from the point of origination/booking. ECL in home credit is estimated by reference to future cash flows based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. Impairment losses are thereby calculated by reference to their stage 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. This methodology encapsulates PD, EAD and LGD collectively. Given the short-term nature of lending in the home credit division, the difference between 12-month ECL and lifetime expected losses is minimal.

IFRS 9 also requires the external environment to be considered as part of the calculation of ECL in the form of a macro-economic adjustment. Due to the nature of the home credit industry and based on historical evidence, management has determined that the effect of traditional macro-economic downside indicators is minimal and therefore such an adjustment is currently not necessary. Management will continue to monitor external macro-economic trends and their impact and apply an adjustment should it become reasonable to do so.

Customer accounts in the branch-based lending and the guarantor loan divisions have been categorised into the 3 stages as defined in IFRS 9 with reference to the following criteria:

- Loans in stage 1 which comprise all customer receivables which do not fall into stages 2 and 3.
- Loans in stage 2 which comprise those which show a significant increase in credit risk since origination, as determined by management to be:
  - the point at which the credit status of a loan has deteriorated to such an extent that had the future performance been expected, it would not have been written in the first place (or had the declined state been presented initially, it would not have been written); or
  - loans over 30 days past due but less than 90 days past due.
- Loans in stage 3 which comprise accounts in default as well as those accounts identified as insolvent (in line with IFRS 9 regulations the definition of default is over 90 days in arrears).

The branch-based lending and the guarantor loan divisions use historical data and risk models to determine the PD, LGD and the EAD. ECL are then predicted by multiplying these three forward-looking parameters and the result is discounted at the original effective interest rate. The ECL drivers of PD, EAD and LGD are modelled at an account level which considers vintage, maturity, exogenous and other credit factors and applied across all receivables from the points of origination/booking. The result is therefore an unbiased probability-weighted estimation of credit losses as determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, multiple scenarios are modelled to ensure an unbiased representative sample of the complete distribution when determining the expected loss.

1. Accounting policies continued
Stress testing methodologies are also leveraged within forecasting economic scenarios for IFRS 9 purposes. The macro-economic variables which are modelled include Bank of England base rate, GDP, CPI, HPI and unemployment rate. Management adjustments and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

Definition of default
The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of PD which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk
The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument, with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available.

Within the branch-based lending and guarantor loan divisions, along with the presumption that loans past 30 days due represents a significant increase in credit risk, a quantitative assessment is carried out which involves determining the point at which expected losses exceed the lowest level of risk that the Group is willing to accept at origination. An ECL above this minimum level provides a very close approximation to the point at which the Group would not have written the loan and therefore represents a significant increase in credit risk.

Within the home credit division, given the short-term nature of the loans, the quantitative assessment of a significant increase in credit risk is determined with reference to the arrears stage of the loan and unexpired term of the loan. The arrears stage is calculated by looking at the last 13 weeks' actual payments compared to contracted payments as this is the single best predictor of future loan performance. The unexpired term further helps in predicting future performance when coupled with arrears stages. The Group has determined the arrears stages which represent a significant increase in credit risk and accordingly, the loans which result in the recognition of lifetime ECL.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group will grant forbearance on a loan in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or, default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment) or reduction in the amount of cash flows due (principal and interest forgiveness). This is generally referred to as a rescheduled loan.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer solely payments of principal and interest, change of counterparty, the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the contractual cash flows on a financial asset have been renegotiated or otherwise modified, but the financial asset is not derecognised, the Group will assess whether there has been a significant increase in credit risk since initial recognition on the basis of all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification. For these loans, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

For loans where modification has resulted in derecognition of the original financial asset, a new financial asset is recognised at fair value upon reschedule (which reflects the new modified terms). The date of modification is treated as the date of initial recognition of the new financial asset and originates in stage 1 (where ECL is measured at an amount equal to 12-month expected credit losses) until the requirements for the recognition of lifetime ECL are met. The exception is where a financial asset is considered credit-impaired at initial recognition.

Derivative financial assets
The Group uses an interest rate cap to manage the interest rate risk arising from the long-term borrowing held within the Group. Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date to their fair value. The Group measures fair value in accordance with IFRS 13, which defines fair value as the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

The Group does not apply hedge accounting and therefore movements in the fair value are recognised immediately within the statement of comprehensive income.

Cash and cash equivalents
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.

Borrowings
Borrowings are recognised initially at fair value, being issue proceeds less any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds less transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate. Borrowings are classified as current liabilities unless the Group or Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Other financial liabilities
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.

Provisions
A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events which are either not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but disclosed unless their probability is remote.

Defined contribution pension schemes
The Group operates a defined contribution pension scheme. Contributions payable to the Group's pension scheme are charged to the income statement in the period to which they relate.

Notes to the financial statements *continued*

1. Accounting policies continued

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.

Dividends

Dividend distributions to the Company's shareholders are recognised in the Group and Company's financial statements as follows:

- Final dividend: when approved by the Company's shareholders at the Annual General Meeting; and
- Interim dividend: when declared by the Company.

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.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. The Group grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes ('SAYE')) and makes awards under the Long-Term Incentive schemes. All of these schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the consolidated statement of comprehensive income on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The corresponding credit is made to a share-based payment reserve within equity. The grant by the Company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the Company's financial statements. At the end of the vesting period, or upon exercise, lapse or forfeit (if earlier), this credit is transferred to retained earnings. Further information on the Group's schemes is provided in note 25 and in the Directors' remuneration report.

Repurchase of share capital (own shares)

Where the Company or any member of the Group purchases the Company's share capital, the consideration paid is deducted from shareholders' equity as treasury shares until they are sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

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 consider home credit (Loans at Home), branch-based lending (Everyday Loans) and guarantor loans (George Banco and TrustTwo) as three CGUs. No goodwill was attributable to TrustTwo upon acquisition of Everyday Loans.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (see financial assets sections of note 1). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group continually monitors whether the business model for which financial assets are held is appropriate and if it is not appropriate, whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 1 for more details.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

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 earnings expected to arise from the CGU and discounted back using an agreed discount rate.

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:

- earnings forecasts which have been extracted from the CGU's 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;
- market multiples used; and
- the discount rate applied to future earnings.

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

The Group has produced a one-year forecast to 31 December 2019 and applied four 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.
4 A price/earnings multiple for the next 12 months applied to the forecast earnings of the business.

IAS 36 requires comparison of the carrying value of goodwill to the recoverable amount which is the higher of 'value in use' or 'fair value less costs to sell'. Management has determined that the recoverable amount is higher under 'fair value less costs to sell' and has compared the carrying value of goodwill to the recoverable amount using this method. The lowest of the fair value 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 2018 as the CGUs' recoverable amounts exceed their carrying values. Refer to note 14 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. The following are key estimations that the Directors have used in the process of applying the Group's recognition of expected credit losses policy:

- Incorporation of forward-looking data: Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario. The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss. This is achieved by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. Therefore, when measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

3. Changes in accounting policies
On 1 January 2018, the Group implemented IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. As permitted by IFRS 9 and IFRS 15, comparative information for previous periods has not been restated. The impact on the Group's financial position of applying IFRS 9 requirements is set out below. The impact of adopting IFRS 15 is not material.

For accounting policies applied from 1 January 2018 in relation to revenue recognition and amounts receivable from customers, refer to note 1.

3.1 Impact on the financial statements
IFRS 9 has been adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018. As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are therefore not necessarily comparable to the loss provisions reported for the current period.

Implementation of IFRS 9 resulted in a £12.7 million reduction in the Group's opening equity at 1 January 2018 net of £2.3 million related to deferred tax impacts. There has been no change in the carrying amount of financial instruments on the basis of their measurement categories. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss impairment approach with an ECL approach.

Notes to the financial statements *continued*

3. Changes in accounting policies continued
The following table shows the adjustments recognised for each individual line item affected by the application of IFRS 9 at 1 January 2018. The application of IFRS 9 had no impact on the consolidated cash flows of the Group.

Condensed consolidated statement of financial position

	Note	31 December 2017 As originally presented[1] £'000	IFRS 9 adjustment – Classification and measurement £'000	IFRS 9 adjustment – Expected credit losses £'000	1 January 2018 Restated £'000
Current assets					
Amounts receivable from customers	18	268,096	–	(14,980)	253,116
Non-current liabilities					
Deferred tax liability	22	(4,996)	–	2,262	(2,734)
Equity					
Retained loss		(36,793)	–	(12,718)	(49,511)

3.2 IFRS 9 Financial Instruments – Impact of adoption
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 1. In accordance with the transitional provisions in IFRS 9 (7.2.15), comparative figures have not been restated. The Group does not use hedge accounting.

The total impact on the Group's retained loss as at 1 January 2018 and 1 January 2017 is as follows:

	1 January 2018 £'000	1 January 2017 £'000
Closing retained loss 31 December – IAS 39	**(36,793)**	(22,019)
Increase in provision for amounts receivable from customers (3.2.1), (3.2.2)	(14,039)	–
Change in modification criteria (3.2.1), (3.2.2)	(941)	–
Increase in deferred tax assets relating to impairment provisions (3.2.1), (3.2.2)	2,262	–
Total adjustment to retained loss from adoption of IFRS 9 on 1 January 2018	(12,718)	
Opening retained loss 1 January – IFRS 9	**(49,511)**	(22,019)

3.2.1 Classification and measurement
On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed the financial instruments held by the Group and determined whether reclassification was needed under IFRS 9. Financial assets and financial liabilities of the Group comprise cash, loans and receivables, and bank borrowings. These are measured at amortised cost and there is no change in classification from IAS 39 under IFRS 9. Refer to note 1 for further detail.

3.2.2 Impairment of financial assets
The Group's amounts receivable from customers was subject to IFRS 9's new expected credit loss model.

The Group was required to revise its impairment methodology under IFRS 9 for these assets, refer to note 1 for more detail.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms.

The impact of the change in modification criteria and impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 3.2 above.

While cash and cash equivalents and intercompany loans are also subject to the impairment requirements of IFRS 9, the Group has concluded that the expected credit loss on these items is nil and therefore no impairment loss adjustment is required.

3.2.3 Amounts receivable from customers
The amounts receivable from customers as at 31 December 2017 reconcile to the opening receivables balance on 1 January 2018 as follows:

Amounts receivable from customers	Branch-based lending £'000	Guarantor loans £'000	Home credit £'000	Total £'000
At 31 December 2017[1] – calculated under IAS 39	157,726	59,135	51,235	**268,096**
Amounts restated through opening retained earnings	(4,408)	494	(11,067)	**(14,980)**
Opening net receivables at 1 January 2018 – calculated under IFRS 9	**153,318**	**59,630**	**40,168**	**253,116**

1 2017 comparatives have been adjusted so that unamortised broker commissions of £8.26m are included within the amounts receivable from customers.

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to amounts receivable from customers.

To measure the expected credit losses, amounts receivable from customers have been grouped based on stages 1, 2 and 3. A summary by stage as at 1 January 2018 was determined as follows:

1 January 2018	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount				
Branch-based lending	142,757	14,054	4,801	**161,613**
Guarantor loans	53,339	6,799	1,223	**61,361**
Home credit	42,041	11,200	10,051	**63,292**
Loan loss provision				
Branch-based lending	(4,245)	(2,211)	(1,838)	**(8,294)**
Guarantor loans	(565)	(891)	(276)	**(1,731)**
Home credit	(5,790)	(7,812)	(9,522)	**(23,124)**
Net amounts receivable				
Branch-based lending	138,512	11,843	2,963	**153,318**
Guarantor loans	52,774	5,908	947	**59,630**
Home credit	36,251	3,388	529	**40,168**
Total net amounts receivable	**227,537**	**21,140**	**4,439**	**253,116**

Reconciliation of estimate of IFRS 9 impairment provision as at 31 December 2017 to actuals as at 1 January 2018

	Branch-based lending £'000	Guarantor loans £'000	Home credit £'000	Total £'000
At 31 December 2017 – estimated impact on net receivables from transition to IFRS 9 (unaudited)	(1,744)	(916)	(10,601)	**(13,261)**
At 1 January 2018 – actual impact on net receivables from transition to IFRS 9 (audited)	(4,408)	494	(11,067)	**(14,980)**
Difference between estimated and actual	**2,663**	**(1,410)**	**466**	**1,719**

Interest income under IFRS 9 for the year ended 31 December 2018

	£'000
Stage 1	**147,007**
Stage 2	**18,053**
Stage 3	**692**
Total interest income under IFRS 9	**166,502**

4. 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 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Interest income	**166,502**	119,756
Fair value unwind on acquired loan portfolio	**(7,678)**	(11,985)
Total revenue	**158,824**	107,771

5. Operating profit/(loss) for the year is stated after charging/(crediting):

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Depreciation of property, plant and equipment (note 16)	**1,772**	1,497
Amortisation of intangible assets (note 15)	**9,661**	7,897
Staff costs (note 9)	**45,061**	32,899
Rentals under operating leases	**3,119**	1,926
Profit on sale of property, plant and equipment	**(45)**	(416)

6. Auditors' remuneration

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Audit services		
Fees payable to the Company's auditor for the audit of the Parent's annual financial statements	**82**	80
Fees payable to the Company's auditor and their associates for the audit of the subsidiaries of the Group	**399**	329
Other services pursuant to legislation	**–**	–
	481	409
Other services		
Audit related fees	**63**	51
Other services relating to taxation	**–**	–
Services relating to corporate finance transactions	**–**	192
	63	243

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 62.

7. 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: Branch-based lending (Everyday Loans), Home credit (Loans at Home), Guarantor loans (TrustTwo and George Banco) 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.

	Branch-based lending £'000	Home credit £'000	Guarantor loans[1] £'000	Central £'000	**2018 Total £'000**
Year ended 31 December 2018					
Interest income	79,579	65,175	21,748	–	**166,502**
Fair value unwind on acquired loan portfolio	(3,958)	–	(3,720)	–	**(7,678)**
Total revenue	75,621	65,175	18,028	–	**158,824**
Operating profit/(loss) before amortisation	22,949	6,714	3,932	(5,397)	**28,198**
Amortisation of intangible assets	–	–	–	(8,681)	**(8,681)**
Operating profit/(loss) before exceptional items	22,949	6,714	3,932	(14,078)	**19,517**
Exceptional items[2]	–	–	–	–	**–**
Finance cost	(12,778)	(2,461)	(5,833)	(35)	**(21,107)**
Profit/(loss) before taxation	10,171	4,253	(1,901)	(14,113)	**(1,590)**
Taxation	(1,860)	(774)	62	2,483	**(89)**
Profit/(loss) for the year	8,311	3,479	(1,839)	(11,630)	**(1,679)**

	Branch-based lending £'000	Home credit £'000	Guarantor loans[1] £'000	Central £'000	Consolidation adjustments[3] £'000	**2018 Total £'000**
Total assets	223,285	52,609	87,365	574,467	(443,187)	**494,538**
Total liabilities	(250,894)	(65,527)	–	(270,071)	302,676	**(283,816)**
Net assets	(27,609)	(12,918)	87,365	304,395	(140,511)	**210,723**
Capital expenditure	3,736	2,256	–	91	–	**6,083**
Depreciation of plant, property and equipment	1,188	398	117	69	–	**1,772**
Amortisation of intangible assets	–	980	–	8,681	–	**9,661**

1 Guarantor Loans Division includes George Banco and TrustTwo. TrustTwo is supported by the infrastructure of Everyday Loans but its results are reported to the Board separately and has therefore been disclosed within the Guarantor Loans Division above.
2 There were no exceptional items for 2018 (2017: £4.5m related to the refinancing of the Group's debt facilities, £1.0m related to merger and acquisition activities and £0.9m related to restructuring).
3 Consolidation adjustments include the acquisition intangibles of £8.5m (2017: £17.2m), goodwill of £140.7m (2017: £140.7m), fair value of loan book of £4.3m (2017: £12.0m) and the elimination of intra-Group balances.

	Branch-based lending £'000	Home credit £'000	Guarantor loans[1] £'000	Central £'000	2017 Total £'000
Year ended 31 December 2017					
Interest income	60,937	50,741	8,078	–	119,756
Fair value unwind on acquired loan portfolio	(11,874)	–	(111)	–	(11,985)
Total revenue	49,063	50,741	7,967	–	107,771
Operating profit/(loss) before amortisation	10,780	3,102	2,637	(4,820)	11,699
Amortisation of intangible assets	–	–	–	(7,897)	(7,897)
Operating profit/(loss) before exceptional items	10,780	3,102	2,637	(12,717)	3,802
Exceptional items	(5,290)	(467)	(230)	(355)	(6,342)
Finance cost	(7,051)	(1,299)	(2,029)	(102)	(10,481)
(Loss)/profit before taxation	(1,561)	1,336	378	(13,174)	(13,021)
Taxation	128	179	(65)	2,444	2,686
(Loss)/profit for the year	(1,433)	1,515	313	(10,730)	(10,335)

	Branch-based lending £'000	Home credit £'000	Guarantor loans[1] £'000	Central £'000	Consolidation adjustments[3] £'000	2017 Total £'000
Total assets	181,962	62,736	50,819	274,200	(121,809)	447,908
Total liabilities	(135,837)	(35,550)	(39,059)	(1,615)	(2,604)	(214,665)
Net assets	46,125	27,186	11,760	272,585	(124,413)	233,243
Capital expenditure	2,474	3,012	32	18	–	5,536
Depreciation of plant, property and equipment	617	798	29	53	–	1,497
Amortisation of intangible assets	–	–	–	7,897	–	7,897

The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

8. Directors' remuneration

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Short-term employee benefits	**1,409**	1,442
Post-employment benefits	**80**	73

Short-term employee benefits comprise salary, bonus and benefits earned in the year. Post-employment benefits represent contributions by the Group in respect of money purchase pension schemes. Refer to Directors' Remuneration Report for more detail on remuneration.

9. Employee information

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

Average number of employees (including Directors)	**Year ended 31 December 2018 Number**	Year ended 31 December 2017 Number
Branch-based lending staff	**319**	286
Guarantor loans staff	**104**	79
Home credit staff	**332**	305
Central staff	**7**	8
	762	678

b) Employment costs

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Wages and salaries	**39,261**	28,824
Social security costs	**4,198**	2,983
Pension costs	**1,602**	1,092
	45,061	32,899

Notes to the financial statements *continued*

10. Finance cost

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Bank charges and interest payable	**(21,110)**	(10,481)
Bank interest receivable	**3**	–
Finance cost	**(21,107)**	(10,481)

11. Loss per share

	Year ended 31 December 2018	Year ended 31 December 2017
Retained loss attributable to Ordinary Shareholders (£'000)	**(1,679)**	(10,335)
Weighted average number of Ordinary Shares at year ended 31 December	**312,713,410**	316,901,254
Basic and diluted loss per share (pence)	**(0.54)p**	(3.26)p

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 in issue. 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. At 31 December 2018, 5,000,000 shares were held in treasury (2017: 1,900,000).

	Year ended 31 December 2018 000's	Year ended 31 December 2017 000's
Weighted average number of potential Ordinary Shares that are not currently dilutive	**10,967**	8,728

The weighted average number of potential Ordinary Shares that are not currently dilutive includes the Ordinary Shares that the Company may potentially issue relating to its share option schemes and share awards under the Group's long-term incentive plans and Save As You Earn schemes. The amount is based upon the number of shares that would be issued if 31 December 2018 was the end of the contingency period.

12. Taxation

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Current tax charge		
Corporation tax charge	**2,484**	673
Total current tax charge	**2,484**	673
Deferred tax credit	**(2,395)**	(3,359)
Total tax charge/(credit)	**89**	(2,686)

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 2018 £'000	Year ended 31 December 2017 £'000
Loss before taxation	**(1,590)**	(13,021)
Tax on loss on ordinary activities at standard rate of UK corporation tax of 19% (2017: 19.25%):	**(302)**	(2,507)
Effects of:		
Fixed asset differences	**97**	(38)
Expenses not allowable for taxation	**379**	199
Share-based payments	**58**	11
Research and Development tax credit	**(7)**	–
Chargeable gains/losses	**(42)**	33
Prior year adjustments	**(32)**	–
Adjustment to tax charge in respect of previous periods[1]	**–**	(573)
Adjustment to tax charge in respect of previous periods – deferred tax	**–**	176
Corporation tax rate change	**(69)**	–
Deferred tax rate change	**–**	60
Changes in unrecognised deferred tax	**7**	(142)
Deferred tax not previously recognised	**–**	95
Total tax charge/(credit)	**89**	(2,686)

1 Includes £nil research and development claim relating to the year ended 31 December 2018 (2017: £0.5m).

Exceptional items and costs related to deferred consideration payments in George Banco, long-term incentive plans are included within 'expenses not allowable for taxation' due the nature of the transactions. There were no exceptional items in 2018, exceptional items disallowed in 2017 include costs in relation to the acquisition of George Banco totalling £0.6m. Long-term incentive plan items disallowed relates to set-up costs and the fair value of the schemes at the date of grant totalling £0.9m (2017: £0.4m).

Reduction in the UK corporation tax 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 2018 has been calculated based on the rate of 19% substantively enacted at the balance sheet date.

13. Dividends

A half-year dividend of 0.6 pence per share (2017: 0.5 pence per share) was paid in October 2018. The Directors have recommended a final dividend in respect of the year ended 31 December 2018 of 2.0 pence per share (31 December 2017: 1.7 pence per share) which will amount to an estimated dividend payment of £6.3m. This dividend is not reflected in the balance sheet as at 31 December 2018 as it is subject to shareholder approval.

14. Goodwill

	£'000
Cost and net book amount	
At 31 December 2016	132,070
Acquisition of subsidiary (George Banco) in 2017	8,598
At 31 December 2017 and at 31 December 2018	**140,668**

The goodwill recognised represents the difference between the purchase consideration and the net assets acquired (including intangible assets recognised upon acquisition). Total goodwill as at 31 December 2018 comprises £40.2m related to the acquisition of Loans at Home, £91.9m related to the acquisition of Everyday Loans, and £8.6m related to the acquisition of George Banco (refer to note 26).

Under IFRS 13, 'Fair Value Measurement', the fair value used in the Goodwill impairment assessment is classified as Level 3, as the fair value is determined using discounted future cash flows.

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:

- earnings 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 forecasts;
- estimates made on the disposal costs of the business; and
- the discount rate applied to determine future earnings.

The recoverable amount has been determined based on a 'fair value less cost-to-sell' calculation. That calculation uses earnings projections based on financial budgets approved by management covering a one-year period to 31 December 2019 (versus a three-year period used in 2017), disposal costs have been estimated at 2% and a discount rate of 12% has been 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 assessment for impairment

The Group has calculated the FV less costs to sell to be in the range of £64m to £67m, a headroom of between £2m and £5m above the carrying value. Considering the key judgements and estimates referred to above as well as the 2019 forecast earnings, the Group has identified that a reduction in 2019 forecast earnings of between 3% and 8% would necessitate an impairment charge. This is significantly tighter than identified in 2017. The financial budgets used in the 2017 earnings projections covered a three-year period and it was calculated that a 61% reduction in 2020 forecast earnings would necessitate an impairment charge to the carrying value of goodwill. Loans at Home's 2019 forecast is based on lending and collections assumptions and management is aware that if the business does not perform in line with these forecast assumptions then revenues and loan loss provisions will be affected which would result in management needing to assess the goodwill at Loans at Home for impairment at this point. For example, if the business was to fall 10% behind forecast earnings for 2019, management would need to consider an impairment charge of between £1m and £5m depending on the FV less cost to sell valuation used in the range identified above. Further uncertainties have arisen in 2018 as a result of the introduction of IFRS 9 and the potential impact of Brexit, which have affected the current price earnings multiples used in the calculations.

For Everyday Loans and Guarantor loans, considering the key estimates above, the Group has identified that it would require a movement in all of the judgements and estimates and 2019 forecast earnings of greater than 15% for Everyday Loans and 50% for Guarantor loans, to give rise to a potential impairment charge to the carrying value of goodwill recognised for these two CGUs.

Notes to the financial statements *continued*

15. Intangible assets – Group

	Customer lists £'000	Agent network £'000	Brands £'000	Broker relationships £'000	Technology £'000	LAH IT software development[1] £'000	**Total £'000**
Cost							
At 1 January 2018	21,924	540	2,005	9,151	6,227	4,265	**44,112**
Additions	–	–	–	–	–	2,014	**2,014**
At 31 December 2018	**21,924**	**540**	**2,005**	**9,151**	**6,227**	**6,279**	**46,126**
Amortisation							
At 1 January 2018	15,773	419	831	3,024	2,595	392	**23,034**
Charge for the year	3,786	121	404	2,813	1,557	980	**9,661**
At 31 December 2018	**19,559**	**540**	**1,235**	**5,837**	**4,152**	**1,372**	**32,695**
Net book value							
At 31 December 2018	**2,365**	**–**	**770**	**3,314**	**2,075**	**4,907**	**13,431**
At 31 December 2017	6,151	121	1,174	6,127	3,632	3,871	21,077

1 The cost and accumulated amortisation of Project Costs and Software were previously presented in the Property, Plant and Equipment note 16. The 2017 comparatives have been adjusted so that the cost and accumulated amortisation of Project Costs and Software at Loans at Home are included in Intangible Assets. The 2016 comparative for cost and accumulated amortisation of Project Costs and Software at Loans at Home was £1.80m.

IAS 38.122 requires the Group to disclose the carrying value and remaining amortisation period of individual acquired intangible assets, the table below includes all material assets held by the Group as at 31 December 2018:

Intangible asset	**Carrying value as at 31 December 2018 £'000**	**Amortisation period remaining Years and months**
Everyday Loans's acquired customer list	835	1 year 11 months
Credit-decisioning technology at Everyday Loans	2,075	1 year and 4 months
Everyday Loans and TrustTwo brands	699	2 years and 4 months
George Banco's acquired customer list	1,530	2 years
George Banco brand	70	8 months
George Banco's broker relationship	3,314	1 year and 8 months
Loans at Home IT software development	4,907	3 years

16. Property, plant and equipment – Group

	Leasehold improvements £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Software £'000	**Total £'000**
Cost						
At 1 January 2018	2,897	1,468	808	2,734	2,646	**10,553**
Additions	2,308	590	–	501	670	**4,069**
Disposals	–	–	(577)	–	–	**(577)**
At 31 December 2018	**5,205**	**2,058**	**231**	**3,235**	**3,316**	**14,045**
Depreciation						
At 1 January 2018	1,055	394	336	1,189	2,018	**4,992**
Charge for the year	542	199	106	674	252	**1,772**
Disposals	–	–	(442)	–	–	**(442)**
At 31 December 2018	**1,597**	**593**	**–**	**1,863**	**2,270**	**6,322**
Net book value						
At 31 December 2018	**3,608**	**1,465**	**231**	**1,372**	**1,048**	**7,723**
At 31 December 2017	1,842	1,074	472	1,545	629	5,562

Property, plant and equipment – Company

	Leasehold improvements £'000	Fixtures and fittings £'000	Motor vehicles £'000	Software £'000	**Total £'000**
Cost					
At 1 January 2018	110	77	55	17	**259**
Additions	–	5	–	86	**91**
At 31 December 2018	**110**	**82**	**55**	**103**	**350**
Depreciation					
At 1 January 2018	37	27	36	1	**101**
Charge for the year	22	16	14	17	**69**
At 31 December 2018	**59**	**43**	**50**	**18**	**170**
Net book value					
At 31 December 2018	**51**	**39**	**5**	**85**	**180**
At 31 December 2017	73	50	19	16	158

17. Investment in subsidiaries – Group

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)	7 Turnberry Park Road, Gildersome, Morley, Leeds, England, LS27 7LE United Kingdom	Provision of consumer credit	100% of Ordinary Shares
Loans at Home Limited	As above	Dormant	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 secured and unsecured personal instalment loans	100% of Ordinary Shares
Non-Standard Finance Subsidiary Limited[1]	7 Turnberry Park Road, Gildersome, Morley, Leeds, England, LS27 7LE United Kingdom	Holding company	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
NSF Finco Limited	As above	Financing company	100% of Ordinary Shares
NSF Group Limited[1]	As above	Dormant	100% of Ordinary Shares
George Banco Limited	Epsom Court 1st Floor, Epsom Road, White Horse Business Park, Trowbridge, England, BA14 0XF	Provision and servicing of unsecured personal instalment loans	100% of Ordinary Shares
George Banco.com Limited	As above	Provision of unsecured personal instalment loans	100% of Ordinary Shares

1 Held directly by the Company. NSF Group Limited has taken advantage of the exemption under section 394A of the Companies Act 2006 from preparing its individual accounts.

Investment in subsidiaries – Company

	2018 £'000	2017 £'000
Investment in subsidiaries	**212,223**	212,223
Share-based payment adjustment	**451**	113
Total investment	**212,674**	212,336

Notes to the financial statements *continued*

18. Amounts receivable from customers – Group

	2018 £'000	2017[1] £'000
Gross carrying amount	**354,794**	292,576
Loan loss provision	**(40,180)**	(24,480)
Amounts receivable from customers	**314,614**	268,096

1 Unamortised broker commissions (as directly attributable transaction costs related to the acquisition of amounts receivable from customers) were previously recorded within prepayments. The 2017 comparatives have been adjusted so that unamortised broker commissions of £8.26m are included within amounts receivable from customers. The 2016 comparative for unamortised broker commissions was £4.09m.

The movement on the loan loss provision for the period relates to the provision at Loans at Home, Everyday Loans, TrustTwo and George Banco for the year. The amounts receivable from customers were recognised at fair value (net loan book value) at the date of acquisition (see note 26 for detail).

Included within the gross carrying amount above are unamortised broker commissions, see table below:

	2018 £'000	2017 £'000
Unamortised broker commissions	**11,182**	8,260
Total unamortised broker commissions	**11,182**	8,260

The fair value of amounts receivable from customers are:

	2018 £'000	2017 £'000
Branch-based lending	**274,291**	178,976
Guarantor loans	**112,157**	60,614
Home credit	**67,717**	64,575
Fair value of amounts receivable from customers	**454,165**	304,165

Fair value has been derived by discounting expected future cash flows (net of collection costs) at the credit risk adjusted discount rate at the balance sheet date. Under IFRS 13, 'Fair Value Measurement', receivables are classed as Level 3 as they are not traded on an active market and the fair value is therefore determined through future cash flows.

Maturity of amounts receivable from customers:	2018 £'000	2017 £'000
Due within one year	**113,066**	129,029
Due in more than one year	**201,547**	139,067
Amounts receivable from customers	**314,614**	268,096

Analysis of receivables from customers

31 December 2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Branch-based lending	173,359	17,032	6,353	**196,744**
Guarantor loans	78,089	9,922	2,192	**90,204**
Home credit	38,692	16,524	12,631	**67,846**
Gross carrying amount	**290,139**	**43,479**	**21,176**	**354,794**
Branch-based lending	5,393	2,665	2,463	**10,521**
Guarantor loans	814	1,412	613	**2,839**
Home credit	3,523	11,355	11,942	**26,820**
Loan loss provision	**9,730**	**15,432**	**15,018**	**40,180**
Branch-based lending	167,966	14,367	3,890	**186,223**
Guarantor loans	77,275	8,510	1,579	**87,365**
Home credit	35,169	5,169	688	**41,026**
Net amounts receivable	**280,409**	**28,047**	**6,158**	**314,614**

Analysis on movement on loan loss provision

	£'000
At 31 December 2016	24,362
Provision on acquisition of George Banco	4,252
Charge for the year	28,795
Amounts written off during the year	(32,188)
Unwind of discount	(741)
At 31 December 2017	24,480
IFRS 9 – opening balance sheet adjustment	8,670
At 1 January 2018	**33,150**

The loan loss provision recognised in the period is impacted by a variety of factors, as described below:

- Transfers between stage 1 and stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period and the consequent 'step up' (or 'step down') between 12 months or lifetime ECL.
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period.
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models.
- Impacts on the measurement of ECL due to changes made to models and assumptions.
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis.
- Financial assets de-recognised during the period and write-offs of allowances related to assets that were written off during the period.
- Financial assets modified during the period.

The following tables explain the changes in the loan loss provision between the beginning and the end of the period due to these factors:

Branch-based lending

Loan loss provision	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loan loss provision as at 1 January 2018:	**4,245**	**2,211**	**1,838**	**8,294**
Changes in the loss provision attributable to:				
– Transfer from stage 1 to 2	(477)	477	–	–
– Transfer from stage 1 to 3	(311)	–	311	–
– Transfers from stage 2 to 1	62	(62)	–	–
– Transfers from stage 2 to 3	–	(1,183)	1,183	–
– Write offs	–	–	(2,676)	(2,676)
Net re-measurement of ECL arising from transfer of stage	(57)	1,005	446	1,394
New receivables originated or purchased	4,060	2,008	1,880	7,948
Net repayments of loans	(2,144)	(1,319)	(215)	(3,678)
Derecognition of modified loans	–	(464)	(337)	(802)
Other movements	15	(8)	34	41
Loan loss provision as at 31 December 2018	**5,393**	**2,665**	**2,463**	**10,521**

Guarantor loans

Loan loss provision	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loan loss provision as at 1 January 2018:	**565**	**891**	**276**	**1,731**
Changes in the loss provision attributable to:				
– Transfer from stage 1 to 2	(61)	61	–	–
– Transfer from stage 1 to 3	(22)	–	22	–
– Transfers from stage 2 to 1	169	(169)	–	–
– Transfers from stage 2 to 3	–	(409)	409	–
– Write offs	–	–	(521)	(521)
Net re-measurement of ECL arising from transfer of stage	(156)	452	100	395
New receivables originated or purchased	453	782	418	1,653
Net repayments of loans	(160)	(298)	(43)	(501)
Derecognition of modified loans	2	38	(74)	(32)
Other movements	25	64	25	114
Loan loss provision as at 31 December 2018	**814**	**1,412**	**613**	**2,839**

18. Amounts receivable from customers – Group continued

Home credit

Loan loss provision	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loan loss provision as at 1 January 2018:	**5,790**	**7,812**	**9,522**	**23,124**
Changes in the loss provision attributable to:				
– Transfer from stage 1 to 2	(9,846)	9,846	–	–
– Transfer from stage 1 to 3	(8,471)	–	8,471	–
– Transfers from stage 2 to 1	34	(34)	–	–
– Transfers from stage 2 to 3	–	(3,984)	3,984	–
– Transfers from stage 3 to 2	–	5	(5)	–
– Transfers from stage 3 to 1	2	–	(2)	–
– Write offs	–	–	(9,047)	(9,047)
Net re-measurement of ECL arising from transfer of stage	14,614	(708)	(623)	13,283
New receivables originated or purchased	7,109	185	11	7,305
Net repayments of loans	(5,709)	(1,767)	(369)	(7,845)
Loan loss provision as at 31 December 2018	**3,523**	**11,355**	**11,942**	**26,820**

The following table further explains changes in the gross carrying amount of amounts receivable from customers to help explain their significance to the changes in the loss allowance for the same portfolios as discussed previously.

Branch-based lending

Gross carrying amount – amounts receivable from customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2018	**142,757**	**14,054**	**4,801**	**161,613**
Changes in the gross carrying amount attributable to:				
– Transfer from stage 1 to 2	(13,408)	13,408	–	–
– Transfer from stage 1 to 3	(7,811)	–	7,811	–
– Transfers from stage 2 to 1	387	(387)	–	–
– Transfers from stage 2 to 3	–	(6,495)	6,495	–
– Transfers from stage 3 to 2	–	–	–	–
– Transfers from stage 3 to 1	–	–	–	–
– Write offs	–	–	(13,358)	(13,358)
New receivables originated or purchased	117,711	9,955	2,945	130,611
Net repayments of loans	(74,234)	(6,650)	47	(80,837)
Derecognition of modified loans	7,958	(6,853)	(2,389)	(1,285)
Gross carrying amount as at 31 December 2018	**173,359**	**17,032**	**6,353**	**196,744**

Guarantor loans

Gross carrying amount – amounts receivable from customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2018	**53,339**	**6,799**	**1,223**	**61,361**
Changes in the gross carrying amount attributable to:				
– Transfer from stage 1 to 2	(3,848)	3,848	–	–
– Transfer from stage 1 to 3	(1,727)	–	1,727	–
– Transfers from stage 2 to 1	1,284	(1,284)	–	–
– Transfers from stage 2 to 3	–	(1,825)	1,825	–
– Transfers from stage 3 to 2	–	–	–	–
– Transfers from stage 3 to 1	–	–	–	–
– Write offs	–	–	(2,970)	(2,970)
New receivables originated or purchased	52,270	5,845	787	58,903
Net repayments of loans	(24,434)	(3,463)	(159)	(27,057)
Derecognition of modified loans	204	3	(240)	(33)
Gross carrying amount as at 31 December 2018	**78,089**	**9,922**	**2,192**	**90,204**

Home credit

Gross carrying amount – amounts receivable from customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2018	42,041	11,200	10,051	63,292
Changes in the gross carrying amount attributable to:				
– Transfer from stage 1 to 2	(14,272)	14,272	–	–
– Transfer from stage 1 to 3	(11,543)	–	11,543	–
– Transfers from stage 2 to 1	192	(192)	–	–
– Transfers from stage 2 to 3	–	(4,872)	4,872	–
– Transfers from stage 3 to 2	–	9	(9)	–
– Transfers from stage 3 to 1	10	–	(10)	–
– Write offs	–	–	(12,910)	(12,910)
New receivables originated or purchased	64,245	366	20	64,631
Net repayments of loans	(41,981)	(4,259)	(928)	(47,167)
Gross carrying amount as at 31 December 2018	**38,692**	**16,524**	**12,631**	**67,846**

Net amounts receivable modification loss

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification has resulted in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	2018 £'000	2017 £'000
Gross carrying amount before modification	**32,891**	23,681
Loan loss provision before modification	**(4,350)**	(3,513)
Net amounts receivable before modification	**28,541**	20,168
Net modification loss	**(404)**	(193)
Net amounts receivable after modification	**28,137**	19,975

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 IFRS 9 as at 31 December 2018. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

Group

At 31 December	Loans and receivables £'000	Fair value assets/ liabilities £'000	Amortised cost £'000	Non–financial assets/ liabilities £'000	2018 Total £'000	2017 Total £'000
Assets						
Cash and cash equivalents	13,894	–	–	–	**13,894**	10,954
Loans and advances to customers	314,614	–	–	–	**314,614**	259,836
Current tax asset	–	–	–	–	**–**	455
Trade and other receivables	–	–	–	3,967	**3,967**	9,356
Other assets	–	241	–	–	**241**	
Goodwill	–	–	–	140,668	**140,668**	140,668
Intangible assets	–	–	–	13,431	**13,431**	21,077
Property, plant and equipment	–	–	–	7,723	**7,723**	5,562
Total assets	**328,508**	**241**	**–**	**165,789**	**494,538**	447,908
Liabilities						
Bank borrowing	–	–	(266,322)	–	**(266,322)**	(199,316)
Current tax liability	–	–	–	(883)	**(883)**	–
Deferred tax liability	–	–	–	(252)	**(252)**	(4,996)
Other liabilities	–	–	(5,184)	(11,175)	**(16,359)**	(10,353)
Total liabilities	**–**	**–**	**(271,506)**	**(12,310)**	**(283,816)**	(214,665)

Notes to the financial statements *continued*

18. Amounts receivable from customers – Group continued

Company

At 31 December	Loans and receivables £'000	Non-financial assets/ liabilities £'000	**2018 Total £'000**	2017 Total £'000
Assets				
Cash and cash equivalents	393	–	**393**	320
Trade and other receivables	61,607	122	**61,729**	60,984
Property, plant and equipment	–	180	**180**	158
Investments	–	212,674	**212,674**	212,336
Total assets	**62,000**	**212,976**	**274,976**	273,798
Liabilities				
Other liabilities	–	(4,786)	**(4,786)**	(1,309)
Total liabilities	**–**	**(4,786)**	**(4,786)**	(1,309)

Trade and other receivables – Group

	2018 £'000	2017 £'000
Other debtors	**406**	81
Corporation tax	**–**	455
Prepayments	**3,561**	1,015
	3,967	1,551

Unamortised broker commissions were previously recorded within prepayments, following the change in presentation, unamortised broker commissions are included within amounts receivable from customers, refer to the note above.

Trade and other receivables – Company

	2018 £'000	2017 £'000
Other debtors	**238**	1,365
Corporation tax	**2,234**	–
Amounts due from subsidiaries	**59,135**	59,501
Prepayments	**122**	118
	61,729	60,984

Amounts owed from Group undertakings are non-interest bearing and repayable on demand.

There are no amounts included in trade and other receivables which are past due but not impaired. The carrying value of trade and receivables is not materially different to the fair value.

19. Cash and cash equivalents – Group

	2018 £'000	2017 £'000
Cash at bank and in hand	**13,894**	10,954

Cash and cash equivalents – Company

	2018 £'000	2017 £'000
Cash at bank and in hand	**393**	320

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.

20. Derivative asset

The Group holds a derivative asset in the form of an interest rate cap. The fair value of the interest rate cap as at 31 December 2018 has been calculated through discounting future cash flows, using appropriate market rates and yield curves.

Under IFRS 13, 'Fair Value Measurement', the interest rate cap is classed as Level 2 as it is not traded in an active market.

21. Trade and other payables and provisions – Group

	2018 £'000	2017 £'000
Trade creditors	**486**	139
Other creditors	**1,718**	1,526
Current tax liability	**883**	–
Accruals and deferred income and provisions	**14,155**	8,688
	17,242	10,353

Trade and other payables – Company

	2018 £'000	2017 £'000
Trade creditors	**101**	120
Other creditors	**106**	85
Amounts due to subsidiaries	**3,755**	255
Accruals and deferred income	**824**	849
	4,786	1,309

Amounts owed to Group undertakings are non-interest bearing and repayable on demand.

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

Provisions – Group

	£'000
Opening at 31 December 2016	970
Charge during the year	618
Utilised	(337)
Balance at 31 December 2017	1,251
Charge during the year	**14**
Utilised	**(1,020)**
Balance at 31 December 2018	**245**

The Group provides for its best estimate of redress payable in respect of historical sales of PPI by considering the likely future uphold rate for claims in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward to 29 August 2019, which is in line with the deadline provided by the FCA for customers to make claims. The accuracy of these estimates would be affected were there to be a significant change in either the number of future claims or the incidence of claims upheld by the Financial Ombudsman Service.

Bank loans – Group

	2018 £'000	2017 £'000
Due within one year	**5,184**	2,507
Due in more than one year	**266,322**	199,316

The Group entered into arrangement for the provision of one financing facility during the year of £60m and an increase to the revolving loan facility provided by The Royal Bank of Scotland plc of £10m. The Group entered into arrangement for the provision of two financing facilities during 2017. The total as at 31 December 2018 is comprised of a £285m term loan provided by institutional investors, and a £45m revolving loan facility provided by The Royal Bank of Scotland plc. As at 31 December 2018 £235.0m (2017: £175.0m) was drawn under the term loan facilities and £37.8m (2017: £33.1m) was drawn under the revolving loan facility. The term loan facility has a six-year term and the revolving loan facility has a five-year term.

Borrowings are recognised at amortised cost. The carrying value of other payables due in more than one year is not materially different to the fair value. The facility arrangements have the benefit of (i) guarantees from, and fixed and floating security granted by, the following entities: NSF Finco Limited, Non-Standard Finance Subsidiary II Limited, Non-Standard Finance Subsidiary III Limited, S.D. Taylor Limited, Everyday Loans Holdings Limited, Everyday Loans Limited, Everyday Lending Limited, George Banco Limited, George Banco.com Limited; and (ii) a charge over the shares in, and intercompany loans made to, NSF Finco Limited granted by Non-Standard Finance Subsidiary Limited.

Notes to the financial statements *continued*

22. Deferred tax liability

	£'000
At 31 December 2016	(5,890)
Recognition of intangible assets at acquisition	(1,461)
Recognition of fair value adjustments on amounts receivable at acquisition	(1,547)
Adjust for changes in deferred tax rate	31
Charge relating to share-based payments	13
Recognition of deferred tax asset at acquisition	530
Current year credit	3,328
At 31 December 2017	(4,996)
Adjust for changes in deferred tax rate	**70**
Charge relating to share-based payments	**3**
IFRS 9 transitional adjustment	**2,182**
Current year credit	**2,489**
At 31 December 2018	**(252)**

The deferred tax liability was recognised on acquisition of Loans at Home, Everyday Loans (including TrustTwo) and George Banco (refer to note 26) in relation to intangible assets on which no tax deduction will be claimed in future periods for amortisation.

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

	2018 £'000	2017 £'000
Accelerated tax depreciation	**(140)**	(65)
Recognition of intangible assets	**(1,619)**	(3,269)
Recognition of fair value adjustments on amounts receivable at acquisition	**(819)**	(2,277)
Restatement of loan loss spreading	**(35)**	–
Other short-term timing differences	**95**	219
Recognition of deferred tax relating to share-based payments	**26**	22
Other losses and deductions	**62**	374
FRS 102 adoption	**(4)**	–
IFRS 9 transitional adjustment	**2,182**	–
Net deferred tax liability	**(252)**	(4,996)

23. Share capital

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 (save the Ordinary Shares held in treasury which do not rank for dividends or other distributions).

Share movements

	Number
Balance at 31 December 2017 and 31 December 2018	**317,049,682**

24. 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.

	Total £'000
Balance at 31 December 2017 and 31 December 2018	**254,995**

25. Other reserves

Treasury shares

The treasury shares reserve represents the cost of shares in the Group purchased in the market and held by the Group to satisfy options under the Group's share options schemes. The number of treasury shares held at 31 December 2018 was 5.0m (2017: 1.9m). This equates to 2% of the weighted average number of ordinary shares in issue.

	£'000
Balance at 1 January 2018	1,357
Acquired in the year	**2,102**
Disposed of on exercised options	**–**
Balance at 31 December 2018	**3,459**

Share-based payments

Equity-settled share option schemes

At 31 December 2018, the Group operated five share-based award schemes which are all equity-settled: founder shares scheme, three long-term incentive schemes (the Non-Standard Finance plc Long-Term Incentive Plan, the Loans at Home Long-Term Incentive Plan and the Everyday Loans Group Long-Term Incentive Plan) and the Sharesave Plan ('Save As You Earn scheme').

a) Movements in the period

Founder Shares 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 payout 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 2018 (2017: £nil).

No shares were issued to the Directors during the year ended 31 December 2018 (2017: nil).

Non-Standard Finance plc Long-Term Incentive Plan

In 2017, awards were made under the Non-Standard Finance plc Long-Term Incentive Plan. The awards were in the form of nil-cost options and the issue of C Ordinary Shares in Non-Standard Finance Subsidiary Limited.

The vesting date for awards is 31 December 2020. On vesting, participants will share in a 'pool' equal to 15% of the growth in value, based on market capitalisation, of the Company at 31 December 2020, above a share price of £1.10 per share.

In respect of awards made in the form of nil-cost options, on exercise a participant will receive shares in the Company equal in value to their proportion of the pool at vesting. In respect of awards made in the form of shares in Non-Standard Finance Subsidiary Limited, on vesting a participant can exchange these shares for shares in the Company equal in value to their proportion of the pool.

Awards in the form of nil-cost options:

	Percentage of pool allocated	Percentage of growth above £1.10 share price	Exercise price
Outstanding at 1 January 2017	–	–	–
Options granted	62.5%	9.4%	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2017 and 31 December 2018	**62.5%**	**9.4%**	**–**
Exercisable at 31 December 2017 and 31 December 2018	**–**	**–**	**–**

Notes to the financial statements *continued*

25. Other reserves continued

Awards in the form of C Ordinary Shares:

	Number	Percentage of growth above £1.10 share price	Exercise price
Outstanding at 1 January 2017	–	–	–
Shares issued	375	5.6%	–
Forfeited	–	–	–
Vested	–	–	–
Outstanding at 31 December 2017 and 31 December 2018	**375**	**5.6%**	**–**
Vested at 31 December 2017 and 31 December 2018	**–**	**–**	**–**

Loans at Home Long-Term Incentive Plan

In 2017, awards were made under the Loans at Home Long-Term Incentive Plan. The awards were in the form of nil-cost options over shares in the Company. On vesting, participants will share in a 'pool' equal to 5% of the growth in the equity value of Loans at Home measured at 31 December 2019 above £130m. The pool is subject to an overall cap of £3m. On exercise of the nil-cost options, a participant will receive shares in the Company equal in value to their proportion of the pool.

	Percentage of pool allocated	Percentage of growth above £130m	Exercise price
Outstanding at 1 January 2017	–	–	–
Options granted	100%	5%	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2017 and 31 December 2018	**100%**	**5%**	**–**
Exercisable at 31 December 2017 and 31 December 2018	**–**	**–**	**–**

Everyday Loans Group Long-Term Incentive Plan

In 2017, awards were made under the Everyday Loans Group Long-Term Incentive Plan. The awards were in the form of nil-cost options over shares in the Company. The vesting date is 31 December 2019. On vesting, participants will share in a 'pool' equal to 5% of the growth in equity value of the Everyday Loans Group measured at 31 December 2019 above £267m. The pool is subject to an overall cap of £6m. On exercise of the nil-cost options, a participant will receive shares in the Company equal in value to their proportion of the pool.

	Percentage of pool allocated	Percentage of growth above £267m	Exercise price
Outstanding at 1 January 2017	–	–	–
Options granted	117.8%	5.9%	–
Lapsed	32.7%	1.6%	–
Exercised	–	–	–
Outstanding at 31 December 2017	**85.1%**	**4.3%**	**–**
Options granted	14.9%	0.7%	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2018	**100%**	**5.0%**	**–**
Exercisable at 31 December 2018	**–**	**–**	**–**

Guarantor Loans Division Long-Term Incentive Plan

During the year, awards were made under the Guarantor Loans Division long-Term Incentive Plan. The awards were in the form of nil-cost options over shares in the Company. The vesting date is 31 December 2020. On vesting, participants will share in a 'pool' equal to 7.35% of the growth in equity value of the Guarantor Loans Division measured at 31 December 2020 above £80m. The pool is subject to an overall cap of £2.5m. On exercise of the nil-cost options, a participant will receive shares in the Company equal in value to their proportion of the pool.

	Percentage of pool allocated	Percentage of growth above £80m	Exercise price
Outstanding at 1 January 2017	–	–	–
Options granted	–	–	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2017	**–**	**–**	**–**
Options granted	100%	7.35%	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2018	**100%**	**7.35%**	**–**
Exercisable at 31 December 2018	**–**	**–**	**–**

Save As You Earn scheme

Awards have been made to employees of the Group under a HMRC tax-advantaged Sharesave Plan. Under the Sharesave Plan, options have been granted in three tranches with a three-year vesting period and with an exercise price set at a 20% discount to the share price at the date of grant.

	Granted on 7 June 2017		**Granted on 6 October 2017**		**Granted on 14 May 2018**	
	Number	**Exercise price (£)**	**Number**	**Exercise price (£)**	**Number**	**Exercise price (£)**
Outstanding at 1 January 2017	–	–	–	–	–	–
Options granted	1,307,711	0.5606	1,910,278	0.606	–	–
Lapsed	(29,536)	–	–	–	–	–
Exercised	–	–	–	–	–	–
Outstanding at 31 December 2017	**1,278,175**	**0.5606**	**1,910,278**	**0.606**	**–**	**–**
Options granted	–	–	–	–	3,447,742	0.495
Replaced	(454,324)	–	(728,998)	–	–	–
Lapsed	(216,395)	–	(345,071)	–	(358,747)	–
Exercised	–	–	–	–	–	–
Outstanding at 31 December 2018	**607,456**	**0.5606**	**836,209**	**0.606**	**3,088,995**	**0.495**
Exercisable at 31 December 2018	**–**	**–**	**–**	**–**	**–**	**–**

b) Fair value of options granted

For the share-based awards granted during the year, the main assumptions in the valuations are as follows.

Non-Standard Finance plc Long-Term Incentive Plan

In 2017, the Non-Standard Finance plc Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of shares in a subsidiary company or nil-cost options. Awards will vest on 31 December 2020 based on the growth of the Company above a share price of £1.10. The fair value of the plan is £1.61m spread over the vesting period and will be equity-settled. A charge of £0.549m (2017: £0.095m) was recognised in the 2018 financial year. The following information is relevant in the determination of the fair value:

	15 September 2017	19 September 2017
Valuation method	Black-Scholes	Black-Scholes
Share price at grant date	£0.75	£0.78
Exercise price	£1.10	£1.10
Expected volatility	25%	25%
Expected life	3.3 years	3.3 years
Expected dividend yield	3.5%	3.5%
Risk-free interest rate	0.32%	0.32%

25. Other reserves continued

Loans at Home Long-Term Incentive Plan

In 2017, the Loans at Home Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of nil-cost options. Awards will vest on 31 December 2019 based on the growth in value of the Loans at Home Group at the vesting date above £130m. The awards are subject to an overall cap of £3m. Awards will be delivered in the form of shares in Non-Standard Finance plc and will be equity-settled. The fair value of the awards made in December 2017 is £0.279m spread over the vesting period.

A charge of £0.144m (2017: £0.004m) was recognised in the 2018 financial year. The following information is relevant in the determination of the fair value:

	20 December 2017
Valuation method	Monte Carlo
Equity value at grant date	£82.5m
Exercise price	£0.00
Expected volatility	30.9%
Expected life	2.16 years
Expected dividend yield	0%
Risk-free interest rate	0.51%

Everyday Loans Group Long-Term Incentive Plan

In 2017, the Everyday Loans Group Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of nil-cost options. Awards will vest on 31 December 2019 based on the growth in value of the Everyday Loans Group at the vesting date above £267m. The awards are subject to an overall cap of £6m. Awards will be delivered in the form of shares in Non-Standard Finance plc and will be equity-settled The total fair value of the awards made in March/April 2017, 4 December 2017 and May 2018 is £0.401m spread over the vesting period. A charge of £0.130m (2017: £0.109m) was recognised in the 2018 financial year. The following information is relevant in the determination of the fair value:

	6 March & 4 April 2017	4 December 2017 & 14 May 2018
Valuation method	Monte Carlo	Monte Carlo
Equity value at grant date	£182.1m	£182.1m
Exercise price	£0.00	£0.00
Expected volatility	25%	34%
Expected life	2.82 years	2.1 years
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	0.14%	0.48%

Guarantor Loans Division Incentive Plan

During the year, the Guarantor Loans Division Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of nil-cost options. Awards will vest on 31 December 2020 based on the growth in value of the Guarantor loans Division at the vesting date above £80m. The awards are subject to an overall cap of £2.5m. Awards will be delivered in the form of shares in Non-Standard Finance plc and will be equity-settled. The fair value of the awards made in April 2018 is £0.248m spread over the vesting period. A charge of £0.064m (2017: £nil) was recognised in the 2018 financial year. The following information is relevant in the determination of the fair value:

	18 April 2018
Valuation method	**Monte Carlo**
Equity value at grant date	**£37.5m**
Exercise price	**£0.00**
Expected volatility	**35%**
Expected life	**2.7 years**
Expected dividend yield	**0.0%**
Risk-free interest rate	**0.76%**

Sharesave Plan

In 2017, the Non-Standard Finance plc Sharesave Plan was adopted. Under the Plan, options can be made with a 3-year vesting period and at an exercise price not more than a 20% discount to the share price at the date of grant and will be equity-settled. The fair value of the awards made in June 2017 is £0.213m spread over the vesting period. The fair value of the awards made in October 2017 is £0.378m spread over the vesting period. The Company has applied modification accounting treatment in respect to the May 2018 awards which have been obtained by some participants at the same time as closing their 2017 awards. The fair value of the awards made in May 2018 which do not qualify for modification treatment is £0.276m spread over the vesting period. The fair value of those awards qualifying for modification treatment is £0.061m spread over the vesting period. A charge of £0.268m (2017: £0.070m) was recognised in the year ended 31 December 2018. The following information is relevant in the determination of the fair value:

	7 June 2017	6 October 2017	**14 May 2018**
Valuation method	Black-Scholes	Black-Scholes	**Black-Scholes**
Share price at grant date	£0.7038	£0.7700	**£0.6200**
Exercise price	£0.5606	£0.6060	**£0.4952**
Expected volatility	28.3%	29.9%	**31.1%**
Expected life	3 years	3 years	**3 years**
Expected dividend yield	1.71%	1.30%	**3.55%**
Risk-free interest rate	0.13%	0.51%	**0.88%**

26. Acquisition of subsidiary

George Banco

On 17 August 2017, the Group obtained control of the George Banco Group, which consists of George Banco Limited, George Banco.com Limited and GeorgeFinance.com Limited. The Group obtained control through the purchase of 100% of the share capital. The acquisition of George Banco is in line with the Group's strategy to be a leader in each of its chosen business segments.

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

	Amounts recognised at acquisition date £'000	Fair value adjustments £'000	Total £'000
Intangible assets[1]	–	7,691	7,691
Property, plant and equipment	125	–	125
Amounts receivable from customers[2]	28,829	8,141	36,970
Trade receivables	50	–	50
Cash and cash equivalents	2,137	–	2,137
Trade and other payables	(380)	–	(380)
Loans and borrowings	(34,134)	–	(34,134)
Deferred tax liabilities[3]	–	(2,478)	(2,478)
	(3,373)	13,354	9,981
Goodwill			8,598
Total consideration			18,579
Satisfied by:			
Cash			18,579
Net cash outflow arising on acquisition:			
Cash consideration			18,579
Cash and cash equivalents acquired			(2,137)
			16,442

1 £2,561,791 has been attributed to the fair value of George Banco's customer list, £4,917,977 to the broker relationships and £210,844 to the George Banco brand.
2 An adjustment to receivables of £8,141,189 has been made to reflect the fair value of the receivables book at the acquisition date.
3 Deferred tax liability of £2,477,875 has been recognised on the intangibles and the fair value adjustment of the receivable book at acquisition (refer to note 22).

George Banco contributed £4.5m to the Group's revenue and £0.5m profit before tax (before fair value adjustments) for the period from the date of acquisition to 31 December 2017. Reported revenue was £4.4m and profit before tax was £0.4m after fair value adjustments for the period from the date of acquisition to 31 December 2017. Assuming George Banco was acquired on 1 January 2017, reported revenue was £10.8m and profit before tax was £0.9m after fair value adjustments.

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.

Notes to the financial statements *continued*

27. Net cash used in operating activities – Group

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Operating profit/(loss)	**19,517**	(2,540)
Taxation paid	**(1,164)**	(2,226)
Depreciation	**1,772**	1,497
Share-based payment charge	**1,157**	291
Amortisation of intangible assets	**9,661**	7,897
Fair value unwind on acquired loan book	**7,678**	11,985
Profit on disposal of property, plant and equipment	**(45)**	(416)
Increase in amounts receivable from customers	**(66,913)**	(54,437)
Increase in other assets	**(241)**	–
Increase in receivables	**(2,418)**	(51)
(Decrease)/increase in payables	**(3,767)**	1,000
Cash used in operating activities	**(34,763)**	(37,000)

Net cash used in operating activities – Company

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Operating loss	**(5,397)**	(5,174)
Depreciation	**69**	53
Share-based payment charge	**818**	165
Decrease in receivables	**280**	2,149
(Increase)/decrease in payables	**3,476**	(286)
Cash used in operating activities	**(754)**	(3,093)

28. Operating lease commitments – Group

At 31 December 2018, the outstanding commitments under non-cancellable operating leases which fall due are as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Within one year	**2,999**	1,572
In the second to fifth years inclusive	**7,125**	3,175
After five years	**279**	99
	10,403	4,846

Operating leases consist mainly of branches and vehicles.

29. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The Company received dividend income of £10.2m from its subsidiary undertakings during the year (2017: £8.9m). Also during the year, Everyday Loans Limited repaid loans of £0.4m due to the Company. The Company borrowed £3.5m from Everyday Loans Limited. Please refer to note 18 for the year-end amounts due from subsidiaries to the Company and note 21 for year-end amounts due to subsidiaries from the Company. Two members of key management personnel (Executive Directors of Non-Standard Finance plc) are Trustees of the charity Loan Smart, during the year the Company donated £45,000 to Loan Smart and has a debtor balance of £80,500 as at 31 December 2018 for a loan to the charity (2017: £nil). Amounts owed to Non-Standard Finance plc are non-interest bearing and repayable on demand.

Three Directors are members of the Non-Standard Finance plc Long-Term Incentive Plan as detailed in note 25. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on 66 to 82.

30. 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 and quality-controlled customer base by applying strong emphasis on good credit management, both through strict lending criteria at the time of underwriting and continuously monitoring the collection process.

The average effective interest rate on financial assets of the Group at 31 December 2018 was estimated to be 80% (2017: 109%).

The average effective interest rate on financial liabilities of the Group at 31 December 2018 was estimated to be 9% (2017: 7%).

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. The Group monitors interest rates but has not chosen to hedge this item given the much greater effective interest on financial assets as compared to the effective interest rate on financial liabilities.

A 1% movement in the interest rate applied to financial liabilities during 2018 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.

The Group assesses the loan book on a days past due basis to consider whether credit risk has increased since initial recognition, see tables below:

Branch-based lending[1]	**2018 £'000**	2017 £'000
Current	**173,699**	143,724
1 to 29 days past due	**3,620**	2,692
30 to 89 days past due	**4,955**	3,981
Over 90 days past due	**3,949**	2,921
	186,223	153,318

Guarantor loans[1]	**2018 £'000**	2017 £'000
Current	**79,738**	53,817
1 to 29 days past due	**4,090**	3,330
30 to 89 days past due	**2,144**	1,707
Over 90 days past due	**1,378**	776
	87,365	59,630

1 Branch-based and Guarantor loans make monthly collections.

Home credit[2]	**2018 £'000**	2017 £'000
Up to 1 in the last 13 weeks missed	**28,207**	29,019
1 to 4 in the last 13 weeks missed	**7,022**	7,232
4 to 8 in the last 13 weeks missed	**2,825**	1,974
8 to 12 in the last 13 weeks missed	**2,488**	1,515
13 in the last 13 weeks missed	**484**	428
	41,026	40,168

2 Home credit make weekly collections.

The Group has performed sensitivity analysis on how ECL would change if key macro-economic assumptions changed in Branch-based lending, Home credit and Guarantor loans.

For Branch-based lending and Guarantor loans the Group has performed sensitivity analysis on the key macro-economic variables (GDP, CPI, HPI, unemployment). Management has considered three scenarios; base, stress and positive. The outputs demonstrated that the probability weighting of these scenarios does not have a material impact on the loan loss provisioning figures.

Due to the nature of the Home credit industry and based on historical evidence, management has determined that the effect of traditional macro-economic downside indicators is minimal and therefore this overlay is currently not necessary.

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.

30. Financial Instruments – Group continued

Capital risk management

The Board of Directors assesses the capital needs of the Group on an ongoing basis and approves all capital transactions. The Group's objective in respect of capital risk management is to maintain a conservative loan to value 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 Group's short-term loans to customers provide a natural hedge against medium-term borrowings. The Group has in place sufficient long-term committed debt facilities which are sourced from a number of different providers. Cash and covenant forecasting is conducted on a monthly basis as part of the regular management reporting exercise. The risk of not having sufficient liquidity resources is therefore low.

The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due.

31. Subsequent events

Since 31 December 2018 the Company has announced a firm offer to acquire Provident Financial plc by way of a reverse takeover, as well as the proposed demerger of Loans at Home. Currently, the financial impact of the proposed transaction cannot be estimated. Since 31 December 2018 there have been no events that require adjustment to the financial statements.

Appendix

Glossary of alternative performance measures and key performance indicators

The Group has developed a series of alternative performance measures that it uses to monitor the financial and operating performance of each of its business divisions and the Group as a whole. These measures seek to adjust reported metrics for the impact of non-cash and other accounting charges (including modification loss) that make it more difficult to see the true underlying performance of the business. Note that all 2017 key performance indicators have been adjusted to reflect the position as if IFRS 9 (see note 3 to the financial statements) had been adopted as at 1 January 2017.

Alternative performance measure	Definition
Net debt	Gross borrowings less cash at bank
Normalised revenue **Normalised operating profit** **Normalised profit before tax** **Normalised earnings per share**	Normalised figures are before fair value adjustments, amortisation of acquired intangibles and exceptional items

Key performance indicator	
Impairments/revenue	Impairments as a percentage of normalised revenues
Net loan book	Net loan book before fair value adjustments but after deducting any impairment due
Net loan book growth	Annual growth in the net loan book
Operating profit margin	Normalised operating profit as a percentage of normalised revenues
Return on asset	Normalised operating profit as a percentage of average loan book excluding fair value adjustments
Revenue yield	Normalised revenue as a percentage of average loan book excluding fair value adjustments
Risk adjusted margin	Normalised revenue less impairments as a percentage of average loan book excluding fair value adjustments

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