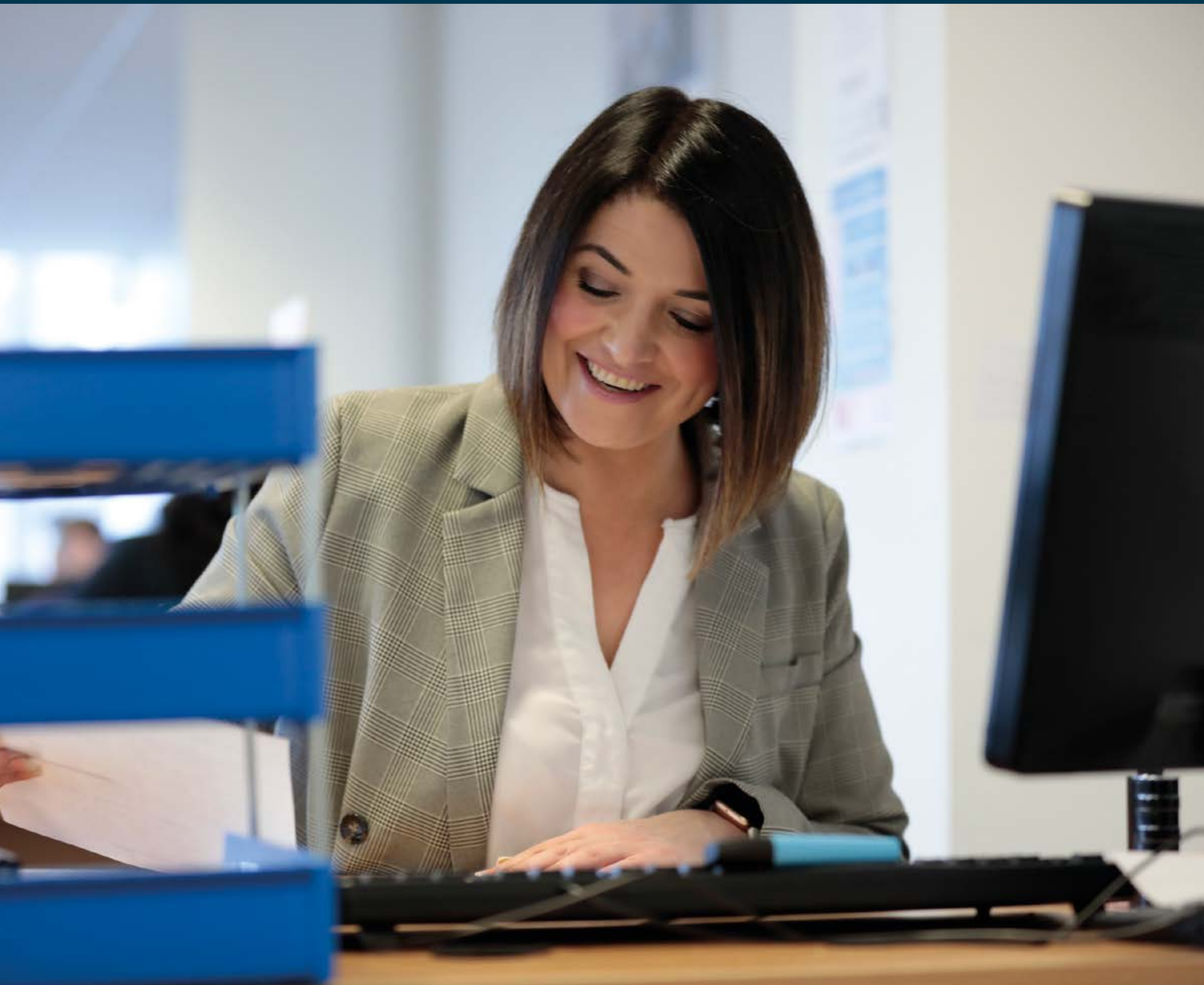
Culture driven lending



Non-Standard Finance plc

nsfgroup

Annual Report & Accounts 2019

Why we are here

To help UK consumers meet their financial needs

What we do

When lending direct, we aim to meet all our customers face-to-face

Whilst more expensive to operate than other models, it often means we can lend when others can't (or won't)

Read our 2019 financial review on **pages 28 to 45**

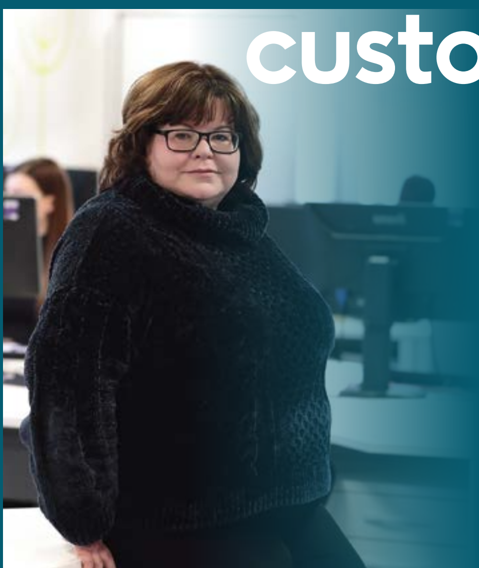
How we do it

Entrepreneurial leadership **P.33**

Doing the right thing **P.72**

Our values and culture are focused on the delivery of good customer outcomes

Integrity **P.37**



Shared purpose through teamwork **P.57**

Clear communication **P.41**

Read our case studies to learn more about our values

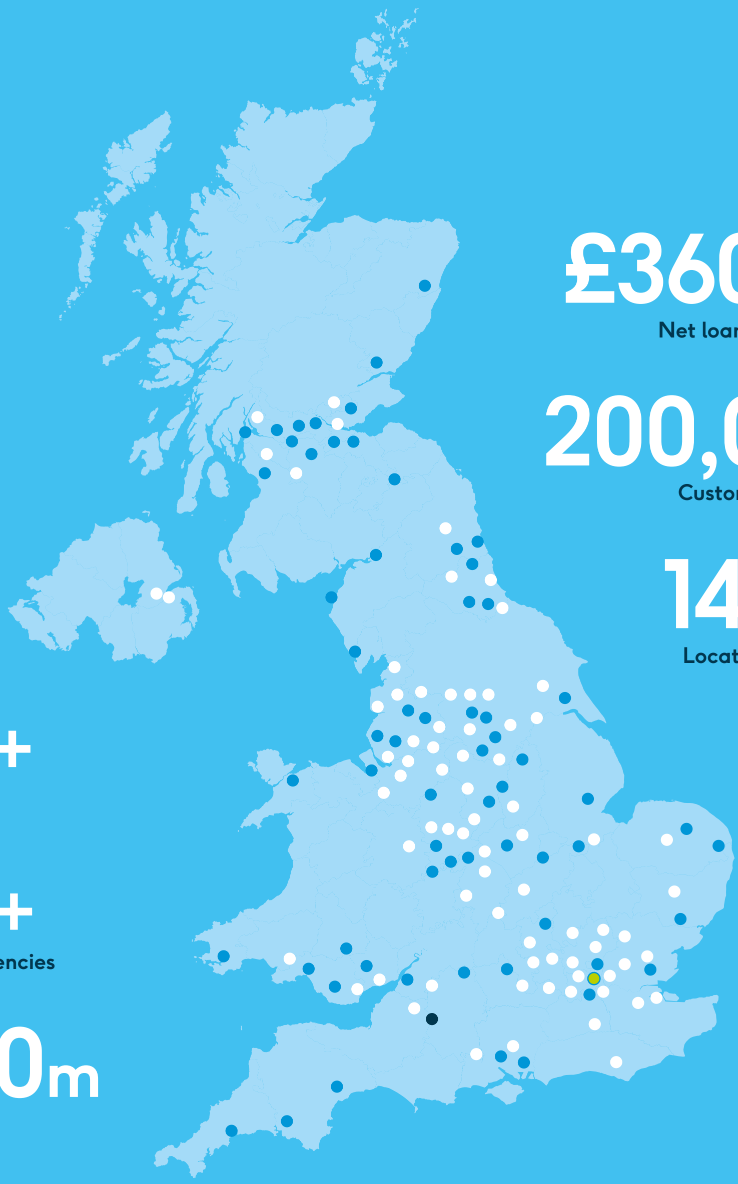
Who benefits?

By lending responsibly we can benefit each of our key stakeholders

Customers	We believe every adult should have access to credit they can afford to repay
Employees and self-employed agents	We aim to ensure that our workforce is well-trained, professional and highly motivated to succeed
Regulators	Maintaining good relations with regulators ensures we can address issues before they become a potential concern
Partners and suppliers	We draw on the expertise of others to help us meet our objectives, maintaining their support and trust is key to our long-term success
Providers of funding	By focusing on long-term returns we can secure the capital we need to fund future loan book growth and associated investment
Communities, charity and environment	Our position in local communities and the contributions we make are important for all of our stakeholders

Read more about our approach to stakeholders on **pages 46 to 59**

A leading provider of unsecured credit



£360.2m
Net loan book[1]

200,000+
Customers

140
Locations

940+
Staff

890+
Self-employed agencies

£309.0m
Net debt[2]

Formed in 2014, we now have national coverage with 140 offices.

- Everyday Loans (74)
- Loans at Home (64)
- Guarantor loans (1)
- NSF (1)

1 A reconciliation of the calculation of combined net loan book is set out on page 31.
2 Gross borrowings less cash at bank at 31 December 2019.

While 2019 was a further year of expansion, COVID-19 is creating uncertainty in all areas of the UK economy. We aim to continue to support our customers, staff and self-employed agents during this difficult time.

Financial summary

Reported results

Combined loan book

£361.6m

+16% (2018 restated: £310.7m)

Revenue

£180.8m

+14% (2018: £158.8m)

(Loss) before tax

£(76.0)m

(3,113)% (2018 restated: £(2.4)m)

Basic and fully diluted loss per share

(24.45)p

(3,204)% (2018 restated: (0.74)p)

Dividend per share

0.70p

(73)% (2018: 2.60p)

Normalised results[1]

Combined loan book

£360.2m

+18% (2018 restated: £306.4m)

Revenue

£183.7m

+10% (2018: £166.5m)

Profit before tax

£14.7m

+5% (2018 restated: £14.0m)

Basic and fully diluted earnings per share

3.67p

+5% (2018 restated: 3.50p)

Dividend per share

0.70p

(73)% (2018: 2.60p)

Operational highlights

- Total loan book[2] grew by 18%
- Branch-based lending: eight new branches opened and 125 new staff added
- Guarantor loans: consolidation of operations into a single location
- Home credit: focus on quality customers with marked reduction in impairment

Visit our website for further information
www.nsfgroupplc.com

1 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 30.

2 For a reconciliation of net loan book growth see table in the 2019 financial review on page 31.

Relationships are key

We understand our customers' needs: we don't look to sell them things they don't want; and if they get into difficulty, we try and find a solution that works for all.

Our culture and values

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

Our key values include:

1. Integrity
We expect our people to respect colleagues and other key stakeholders and to do what we say we will do (see page 37).

2. 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 (see page 57).

3. Doing the right thing
We recognise our collective responsibility for delivering great outcomes – not just for our customers but also our other stakeholders (see page 72).

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 (see page 41).

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 (see page 33).

Customer touch points

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 and helps build trusted relationships.

By phone
Applicants also contact us by phone to confirm their details and start the loan application process as well as to tell us if they are having problems.

Our divisions

Branch-based lending
First established in 2006, we are the UK's largest branch-based provider of unsecured loans to sub-prime borrowers

18%
loan book growth[1]

Guarantor loans
Serving UK customers since 2014, we are the clear number two in what has been a fast-growing UK market

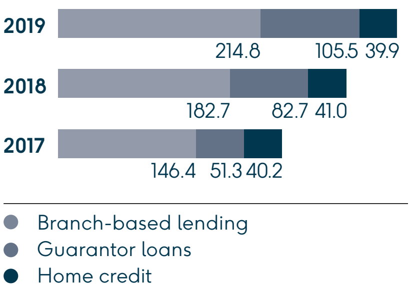
30%
growth in customer numbers[1]

Home credit
We are the UK's third largest provider of unsecured home credit with a large network of self-employed agencies

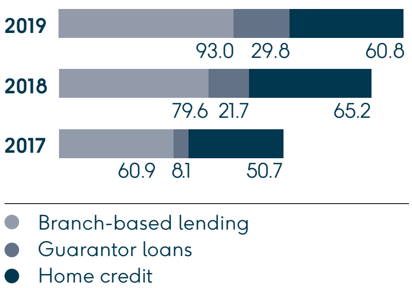
896
agencies

Our KPIs

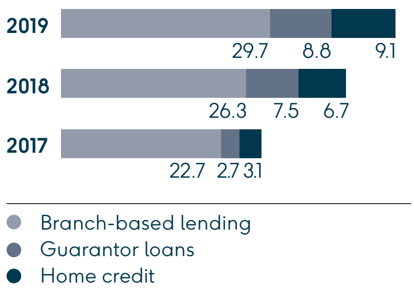
Net loan book[2]



Normalised revenue[2]



Normalised operating profit[2]



1 In the year ended 31 December 2019.
2 See glossary of APMs and KPIs in the Appendix. 2018 has been restated to reflect a prior year adjustment (see note 1 to the financial statements). A reconciliation of the calculation of combined net loan book is set out on page 31.

Culture driven lending

2019 and the first half of 2020 has proven to be a challenging period for the Group.

"The strength of our culture is a key business driver.

Charles Gregson
Non-Executive Chairman

Despite having grown our customer base and loan book in 2019, the scale of the reported pre-tax loss in the year was disappointing. It masked a solid operational performance, one that has been driven in large part by our determination to foster the right culture throughout all areas of our business.

Whist our £1.3bn offer for Provident Financial plc ('Provident') was ultimately unsuccessful, the opportunity to combine NSF with Provident was one that we continue to believe made real commercial sense. Again, our cultural approach ensured that despite the inevitable distractions from such an initiative, we continued to deliver operationally, executing our internal plans.

The coronavirus ('COVID-19') outbreak that started to impact the UK economy in earnest during March 2020 has tested and is continuing to test our business as well as each of our cultural pillars upon which our corporate ethos has been built. Whilst significant uncertainty remains, I and the rest of the Board are extremely proud of the way in which as a business we have tackled the many challenges that have emerged since the crisis began. The fact that our people have continued to perform to the very high standards set, sometimes in very difficult circumstances, is perhaps the most powerful evidence of how the strength of our culture is continuing to drive our business.

2019 results

Reported revenues were £180.8m (2018: £158.8m) while operating profit was £32.1m (2018 restated: £18.7m). Higher interest costs and the impact of exceptional charges that included aborted bid costs, goodwill impairment and restructuring costs resulted in a statutory loss per share of 24.45 pence (2018 restated: statutory loss per share of 0.74 pence). As explained in the 2019 financial review, the decline in market multiples in the non-standard sector over the past 18 months meant that the goodwill assets of each division had to be impaired, incurring an exceptional non-cash charge in the year of £65.8m (2018: £nil).

On a normalised basis[1], operating profit increased by 20% to £42.2m (2018 restated: £35.1m), profit before tax increased by 5% to £14.7m (2018 restated: £14.0m) and earnings per share increased to 3.67 pence (2018 restated: 3.50 pence).

Funding

In March 2020 we increased our committed debt facilities with the addition of a new £200m six-year securitisation facility. Having access to a broad range of long-term funding is key for any credit business, especially during periods of macroeconomic uncertainty when a lack of funding can prevent opportunities from being maximised. As at 31 May 2020 the Group had cash of £60m and whilst £15m of the securitisation facility has been drawn, the impact of COVID-19 on the loan book has prompted a breach of certain performance covenants, preventing further drawdown on the new facility. However, negotiations with the lender have been positive and temporary relief until 29 June 2020 has been provided whilst a more permanent agreement is reached. Until such agreement is concluded there exists material uncertainty over the ability of the Group to draw down further on the facility. In the event that no agreement is reached or the temporary relief is not extended then the Group has sufficient cash resources to repay the amount drawn under the new facility in full. The Board is in discussions with its lenders regarding possible covenant waivers, whilst at the same time evaluating all funding options, which may include the issue of equity, in order to ensure the Group has a strong and liquid balance sheet. Combined, it is hoped that these actions will unlock access to the facility and help to reduce

20%

increase in normalised operating profit

1 See glossary of APMs and KPIs in the Appendix.

overall funding costs as well as provide additional finance for future growth.

Our strategy remains unchanged

We remain committed to meeting the needs and helping those consumers who are either unable or unwilling to borrow from mainstream lenders. This is a large market, comprising between 20-25% of all UK adults or approximately ten million people. We believe that each of our business divisions, whilst different in terms of customer base, product and channel, shares the potential to generate substantial value through a combination of loan book growth and a high return on assets.

Our business strategy to help meet these objectives comprises three elements:

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

Further details on each of these elements can be found on pages 18 to 23.

Deeds not words

Throughout this Annual Report you will find a series of case studies, describing how our people are translating the values and behaviours that define our corporate culture into their day-to-day lives for the benefit of our stakeholders.

From the very outset, the Board and I have been focused on ensuring that we are not just 'talking the talk' and that our policies, procedures and management philosophy are being implemented by all of our people for the benefit of our customers, staff, self-employed agents and all of our key stakeholders. Whilst we believe that an attractive return on assets, high levels of customer satisfaction, low levels of customer complaints and staff turnover, high numbers of training days and positive employee feedback all point towards us delivering for each of our key stakeholder groups, we are not complacent and continue to strive to do more. We have long recognised that building and then sustaining a positive culture requires significant effort from all of our people, every day, every week and every month and it never stops. It requires careful monitoring, management and development. As a Board we are incredibly proud of what our people tell us it feels like to be part of an NSF Group company and how that is being translated into operational and financial performance. Further details on how our actions are benefiting some of our key stakeholders is enshrined within our Section 172 statement and associated disclosures that form a key part of this Annual Report (see pages 46 to 59).

Regulation

As each of our businesses is fully authorised by the FCA, we continue to engage regularly with our regulator both at an operational as well as a strategic level to ensure we remain well-informed of any concerns or possible changes to prevailing rules and guidance.

During 2019 the FCA conducted a multi-firm review in the guarantor lending sector and has asked firms to make some operational changes to the lending process that includes providing some additional information to guarantors prior to any loan being made. These changes are not expected to have any material impact on the attractions of guarantor loans relative to other non-standard products and so are not expected to have a significant impact on the Group.

2019 also saw the introduction of the Senior Managers and Certification Regime ('SMCR') that we adopted in all three of our business divisions on time and without incident.

For further details on key regulatory developments, please visit our website: **www.nsfgroupplc.com**.

Final dividend

The Group declared a half-year dividend of 0.7p per share in August 2019 (2018: 0.6p). As announced on 26 March 2020, the Board is not recommending or paying a final cash dividend in respect of the year ended 31 December 2019.

The significant decline in market multiples across the sector has required an impairment to the goodwill asset values of all three divisions. Whilst non-cash in nature, together with the amortisation of acquired intangibles (also non-cash in nature) and other exceptional items, these charges have meant that the Company no longer has any distributable reserves. To address this, the Board is committed to completing a process, subject to shareholder and Court approval, to create sufficient distributable reserves so that, as soon as circumstances allow, the Company can resume the payment of cash dividends to shareholders.

Material uncertainty

Given the prevailing macroeconomic uncertainty regarding COVID-19 and its potential impact on the Group's future performance that in certain downside scenarios could cause a further breach of borrowing covenants, I wish to draw your attention to the fact that the Audit Committee report for the year ended 31 December 2019 makes reference to a material uncertainty related to going concern (see page 87) and viability (see page 90), as does the independent auditor's report (see page 119).

The Board has already taken a number of steps to safeguard the future viability of the Group including a number of measures to reduce costs and save cash including staff reductions and the furloughing of over 120 employees, the deferral of payments to the UK tax authorities and the cancellation of all Executive Director bonuses linked to financial performance in respect of 2020. As at 31 May 2020 the Group had net cash of £60.3m with gross borrowings across its facilities of £345.0m. As lending volumes have been significantly reduced and even with an increase in impairment, the Group is expected to generate positive cash flow and has a large outstanding loan book.

Each of these factors, together with several other cost reduction options that are available, mean that the Board expects that the Group can continue to meet its ongoing obligations as planned.

Outlook

The challenges from COVID-19 on the current trading environment cannot be understated and the significant prevailing uncertainty means that we have withdrawn all forward-looking guidance until further notice. However, as explained in the Group Chief Executive's review, whilst in the short term it is expected that the Group will experience a reduction in income from lending activities, an increase in expected credit losses due to the pandemic and an associated reduction in the carrying value of goodwill, the Group is continuing to generate cash and manage its financial position carefully. Further ahead, and based on the Board's considerable experience of managing similar businesses through previous recessions, we also believe that the current environment could create a significant opportunity for non-standard lenders such as NSF. The Board is therefore exploring with its advisers the most appropriate funding structure, which may include the issue of equity, in order to strengthen the Group's balance sheet, unlock access to additional low-cost funding and help to ensure that the Group is well-placed to take advantage of any such opportunity.

Charles Gregson
Non-Executive Chairman
25 June 2020

Opportunities for growth

1 Strong demand

c.20-25% of UK adults are either unwilling or unable to borrow from mainstream financial institutions[1]

Customers are low paid or on variable income

16%
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.1.1m
County Court Judgments per annum[4]

14m
people use an unarranged overdraft each year[5]

1 UK 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. For example, median hourly earnings for all employees in 2019 was £13.27, therefore low-pay employees were anyone earning below two-thirds of £13.27, which is £8.85. High-pay employees were those earning anything above 1.5 times £13.27, which was £19.91. This was the lowest proportion of low-paid employee jobs by hourly pay since the series began in 1997 – ONS Low and high pay in the UK: 2019, 29 October 2019.
3 The number of self-employed people in the UK in October 2019 was 4.96 million (15.1% of all people in work) – ONS Labour Force Survey, 12 November 2019.
4 Registry Trust Limited – 12-month volume to December 2019 for England and Wales.
5 FCA – CP18/42 High-Cost Credit Review: Overdrafts consultation paper and policy statement, December 2018.

2 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 national providers of non-standard credit to supply this large market.

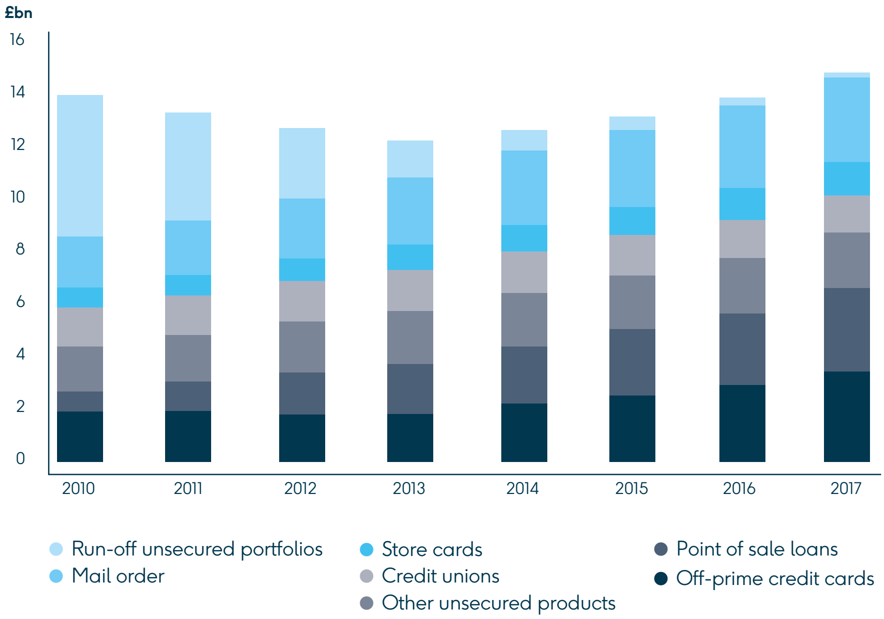
Credit to non-standard customers was significantly reduced following the financial crisis due to a number of factors, including:

- withdrawal by many mainstream lenders from the market;
- 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.

The recent outbreak of COVID-19 also prompted a significant reduction in the availability of credit in 2020 as lenders were forced to reassess their lending criteria in the face of a rapid economic slowdown.

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

The supply of non-standard finance in the UK



Source: L.E.K. Consulting – Executive Insights Volume XX, issue 39 and Company estimates. It has not been possible to obtain comparable data for 2018 or 2019.

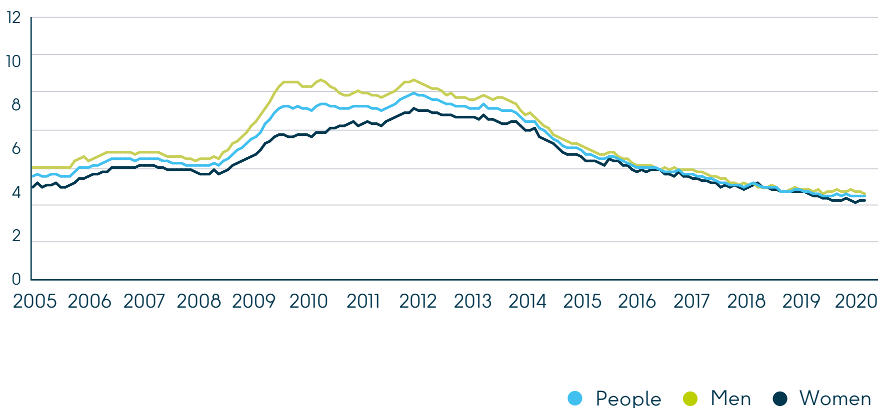
3 Previously favourable conditions are expected to have been severely impacted by COVID-19

Macroeconomic
- ✓ Employment rates in 2019 were high at 76.5% while unemployment was low at 3.8%[1]
- ✓ Real weekly incomes, including bonuses, increased by 1.4% in 2019[1]
- ✓ Inflation (consumer price index including owner occupiers' housing costs) was low at 1.4% in December 2019[2]
- ✗ Long-term impact of the COVID-19 outbreak remains uncertain but is expected to have a major impact on the UK economy in 2020
- ✗ Brexit creates additional uncertainty but is not expected to affect most of our customers, all of whom are UK-based

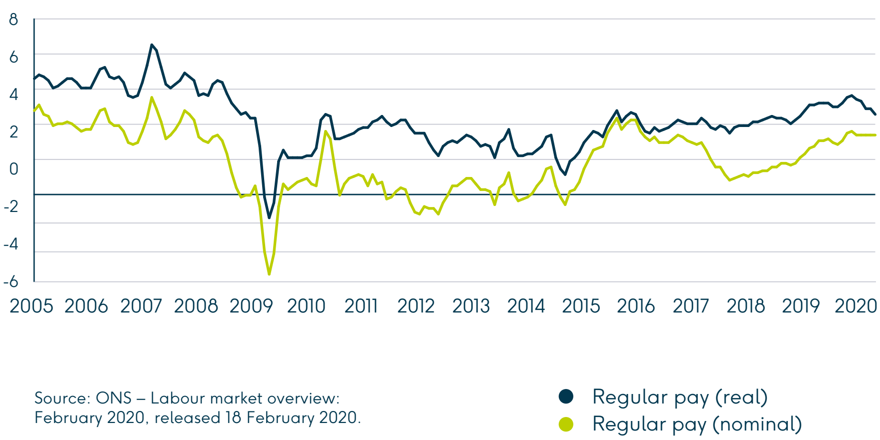
Competition
- ✓ Highly fragmented with limited number of large, profitable and national firms
- ✓ Many mainstream lenders left the market post-2008 together with a number of high-cost lenders in 2019
- ✗ Technology evolution may mean that new business models emerge

Regulation
- ✓ Strict regulatory framework ensures a level playing field for all operators
- ✓ The FCA recently introduced some operational changes in home credit[3] and guarantor loans[4] that are not expected to have a material impact on our business
- ✗ Continuous evolution of the regulations including increased forbearance for COVID-19

Unemployment rate %



Real annual growth in total pay %



Source: ONS – Labour market overview: February 2020, released 18 February 2020.

1 ONS – Labour market overview: February 2020, released 18 February 2020.
2 ONS – Consumer price inflation, UK: December 2019, released 15 January 2020.
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.
4 The FCA has suggested certain operational changes that include, inter alia, enhancing the level of information provided to a guarantor prior to any loan being made.

4 NSF is well-positioned

Branch-based lending	Guarantor loans	Home credit
#1	#2	#3
In the market	In the market	In the market
75,400 customers	32,600 customers	92,400 customers

High risk-adjusted margins and committed long-term debt funding

Providing affordable credit

Why we are different

Access to long-term funding

The Group uses equity and significant long-term debt facilities to help fund future growth

Culture

Providing customers with 'a helping, but firm hand' is an approach that is embedded deeply within each of our businesses

Infrastructure

All three of our businesses are well-invested and highly scalable

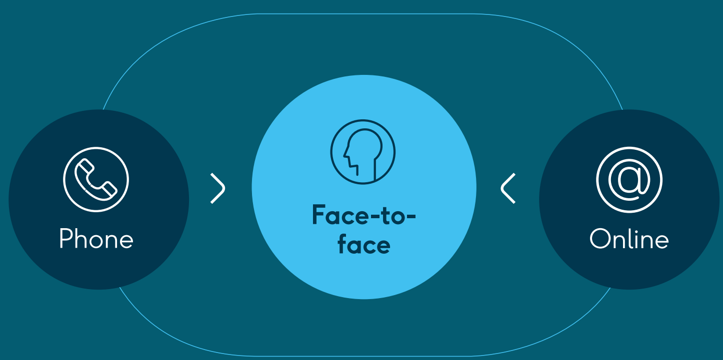
What we do

Understand our customers' financial and personal circumstances

+

Develop affordable products that meet the needs of our customers

Lend responsibly



Collect responsibly

Stakeholder benefits

How we create value

Through our business model we seek to deliver benefits for each of our key stakeholders. Examples of our outcomes are set out here:

Customers

FOS complaints[1]

0.05%

(2018: 0.01%)

Our people

Total training days[2]

5,402

(2018: 4,460)

1 Number of upheld cases at the Financial Ombudsman Service ('FOS') as a percentage of 200,400 customers as at 31 December 2019 (2018: 180,100 customers): Everyday Loans: 46 cases (2018: 20 cases); TrustTwo and George Banco: 22 cases (2018: 4 cases); Loans at Home: 24 cases (2018: 8 cases).

To be an industry leader in each of our chosen sub-sectors, we need to deliver high levels of customer satisfaction and have a low number of complaints. This requires that we design loan products that meet customers' needs; deliver them in a way that best suits the customer; and ensure they are clearly understood.

Compliance and risk management

Managing risk is a key area of focus. We don't cut corners and know when something is not right

Management

Attracting and retaining the best talent is key for our long-term success

Manage risks

Conduct

Regulation

Credit

Strategy

Operations

Reputation

Cyber

COVID-19

Funding and liquidity

Deploy capital and funding

Invest in assets

Reward providers:

– Debt

– Equity

Manage costs

Shareholders

Return on assets[3] (Branch-based lending)
14.8%
(2018: 15.8%)

Return on assets[3] (Guarantor loans)
9.3%
(2018: 11.2%)

Return on assets[3] (Home credit)
25.1%
(2018: 17.7%)

Communities

Total workforce[4]
1,837
(2018: 1,760)

2 Total for Everyday Loans: 2,946 (2018: 1,620); Guarantor Loans Division: 465 (2018: 399); and Loans at Home (staff and agents): 1,992 (2018: 2,441).
3 See glossary of APMs and KPIs in the Appendix. 2018 metrics have been restated following a prior year adjustment (see note 1 to the financial statements).
4 NSF plc: 11 (2018: 11), Everyday Loans: 476 (2018: 406), Guarantor Loans Division: 141 (2018: 115); and Loans at Home (staff and agents): 1,209 (2018: 1,228).

Serving the underserved

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

NSF has become a leading player in the sector

John van Kuffeler
Group Chief Executive

Summary of 2019 full-year results

Year to 31 December	2019 £000	2018 restated £000	% change
Normalised revenue[1]	**183,657**	166,502	*+10%*
Reported revenue	**180,784**	158,824	*+14%*
Normalised operating profit[1]	**42,165**	35,101	*+20%*
Reported operating profit	**32,066**	18,742	*+71%*
Normalised profit before tax[1]	**14,707**	13,994	*+5%*
Reported (loss) before tax	**(75,976)**	(2,365)	*-3,113%*
Normalised profit after tax[1]	**11,446**	10,944	*+5%*
Reported (loss) after tax	**(76,308)**	(2,307)	*-3,208%*
Normalised earnings per share[2]	**3.67p**	3.50p	*+5%*
Reported (loss) per share	**(24.45)p**	(0.74)p	*-3,204%*
Full-year dividend per share	**0.70p**	2.60p	*-73%*

When providing credit, we seek to deliver positive outcomes for key stakeholders, including customers, investors, employees, partners and the communities in which we live and work.

Context for results

The 2019 and 2018 reported results include fair value adjustments and amortisation of acquired intangibles. A prior year adjustment has been made to the opening 2018 balance sheet to reflect an increase in loan loss provisions following the transition to IFRS 9 and the 2018 results have been restated to reflect this change. The 2019 reported results also include exceptional items relating to the costs arising from the firm offer to acquire Provident Financial plc, goodwill impairment of £65.8m (2018: £nil) relating to all three business divisions and costs related to restructuring. Normalised results are presented to demonstrate Group performance before these items.

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 Basic and diluted earnings (loss) per share is calculated as normalised profit after tax of £11.4m divided by the weighted average number of shares in issue of 312,126,220 (2018: 312,713,410).

2019 full-year results

In 2019 both branch-based lending and guarantor loans delivered solid loan book growth and this translated into good growth in normalised operating profit. Despite being in a mature market, our home credit business also delivered strong growth in operating profit thanks to the shift to a shorter-term loan book and careful management of impairment and operating costs.

The key operational and strategic highlights during the year included:

Branch-based lending:

- net loan book[1] up 18% to £214.8m
- impairment lower at 22.2% of revenue[1]
- eight new branches opened taking the total to 73
- 17% increase in the number of staff to 476
- over 2.5 million loan applications processed, up 52%
- 75,400 active customers, up 23%

Guarantor loans:

- net loan book[1] up 28% to £105.5m
- impairment increased to 26.8% of revenue[1]
- consolidation of the division's operations from two sites into one
- over 520,000 loan applications processed, up 16%
- 32,600 active customers, up 30%

Home credit:

- net loan book[1] down 3% to £39.9m
- impairment down from 32.6% to 27.0% of revenue[1]
- Significant technology-driven enhancements were delivered during the year:
  - new customer portal
  - automated income verification
  - card readers for agents enabling 'chip and pin' on the doorstep
  - bespoke scorecard for our most experienced and best performing agents

On a like-for-like basis, the combined net loan book at 31 December 2019 increased by 18% to £360.2m before fair value adjustments (2018 restated: £306.4m) and was up by 16% to £361.6m (2018 restated: £310.7m) after fair value adjustments. A summary of the other key performance indicators for each of our businesses for 2019 is shown below.

In the 12 months to 31 December 2019 the Group grew normalised revenue before fair value adjustments by 10% to £183.7m (2018: £166.5m) and normalised operating profit by 20% to £42.2m (2018 restated: £35.1m). As a result of higher interest charges, normalised earnings per share increased by 5% to 3.67 pence (2018 restated: 3.50 pence).

The Group's 2019 and 2018 reported, or statutory results are significantly affected by fair value adjustments, the amortisation of acquired intangibles associated with the acquisitions of Everyday Loans and George Banco, the adoption of IFRS 9 and exceptional items. On a statutory basis, reported revenue, which is after fair value adjustments, was £180.8m (2018: £158.8m) while the impact of £80.6m of exceptional items (2018: £nil) and £7.2m amortisation and write-off of acquired intangibles (2018: £8.7m) meant that the Group reported a loss before interest and tax of £48.5m (2018 restated: profit before interest and tax of £18.7m) and the reported loss before tax was £76.0m (2018 restated: £2.4m).

Key performance indicators[1] Year ended 31 December 2019	Branch-based lending	Guarantor loans	Home credit
Loan book growth	**17.6%**	**27.7%**	**(2.7)%**
Revenue yield	**46.4%**	**31.7%**	**167.5%**
Risk adjusted margin	**36.1%**	**23.2%**	**122.2%**
Impairments/revenue	**22.2%**	**26.8%**	**27.0%**
Impairments/average net loan book	**10.3%**	**8.5%**	**45.2%**
Cost:income ratio	**45.4%**	**43.2%**	**58.0%**
Operating profit margin	**31.9%**	**29.4%**	**15.0%**
Return on assets	**14.8%**	**9.3%**	**25.1%**

Key performance indicators[1] Year ended 31 December 2018	Branch-based lending	Guarantor loans	Home credit
Loan book growth	24.7%	61.0%	2.1%
Revenue yield	47.8%	32.5%	171.5%
Risk adjusted margin	37.0%	25.8%	115.6%
Impairments/revenue	22.7%	20.5%	32.6%
Impairments/average net loan book	10.8%	6.6%	55.9%
Cost:income ratio	45.9%	45.9%	57.1%
Operating profit margin	33.0%	34.5%	10.3%
Return on assets	15.8%	11.2%	17.7%

1 See glossary of APMs and KPIs in the Appendix. 2018 KPIs have been restated for the prior year adjustment to loan loss provisions.

A summary of the exceptional items is shown in the following table (further details regarding the exceptional items are set out in note 8 to the financial statements).

Year ended 31 December	2019 £000
Impairment of goodwill asset (non-cash) – branch-based lending	(44,788)
Impairment of goodwill asset (non-cash) – guarantor loans	(8,597)
Impairment of goodwill asset (non-cash) – home credit	(12,452)
Offer-related fees	(12,827)
Restructuring costs	(1,920)
Total	(80,584)

Unlike many other consumer credit businesses, when lending direct i.e. without a guarantor, we aim to meet our customers face-to-face. This provides us with an additional level of underwriting that is not available to remote-only lending models and is only made possible through meeting the customer personally. The customer relationship is therefore at the heart of both branch-based lending and home credit, and even in guarantor loans we make a point of speaking at length to both borrower and guarantor in 100% of cases, ensuring that we understand their needs and can identify which of our products and services might suit them best. The strength of this relationship also helps us to better manage the rate of impairment and ensure that customers in financial difficulty are given due forbearance in a way that works for them.

Whilst COVID-19 has required that we accept and adapt to new ways of working to ensure the health and safety of our customers, staff and self-employed agents, we remain committed to our business model. Despite the current challenges that have reduced lending volumes, impacted collections and created material uncertainties for the Group, we remain confident that our model can continue to meet the needs of our customers, whilst also generating profitable growth over the long term.

Branch-based lending

We opened in eight new locations in 2019 and so at the end of 2019 had a total of 73 branches open across the UK, supported by a total of 365 front-line staff. Demand remained strong and lead volumes increased by 52% versus the prior year resulting in a 36% increase in the number of qualifying new borrower applications that were passed through to our branches. The benefit of new branches and staff, together with the improving performance of previously opened branches was partially offset by higher costs and so the division delivered a 13% increase in normalised operating profit to £29.7m (2018 restated: £26.3m). However, higher interest costs and the sharp decline in stock market valuations in the sector during the second half of 2019 required a reduction in the carrying value of goodwill on the balance sheet by £44.8m to £47.1m. This non-cash charge has been treated as an exceptional item in the Consolidated Statement of Comprehensive Income (see note 8 to the financial statements).

Guarantor loans

The demand for guarantor loans remained strong in 2019. The presence of a guarantor means that many non-standard borrowers are able to access credit that might not otherwise be available to them and at a much lower rate than if they were to try and borrow on their own. During 2019, we accelerated the plan to consolidate our guarantor loans operations into a single established site in Trowbridge, Wiltshire. Having moved the collections function earlier in the year, we commenced the transfer of the remaining operations during the fourth quarter of 2019, some nine months ahead of our original plan. While this did cause some temporary disruption and held back profit margins, normalised operating profit was up 17% to £8.8m (2018 restated: £7.5m). While the loan book grew by 28%, this did come with an increase in the rate of impairment which remains a key area of focus for management. Despite the increase in normalised operating profit, higher interest costs and the sharp decline in stock market valuations in the sector also impacted guarantor loans during the second half of 2019 requiring a reduction in the carrying value of goodwill on the balance sheet by £8.6m to £nil as well as a write-off of £2.0m of remaining acquired intangibles. These non-cash charges have been treated as exceptional items in the Consolidated Statement of Comprehensive Income (see note 8 to the financial statements).

Home credit

Loans at Home delivered another solid performance in 2019. We continued to reduce the proportion of customers on long-term loans and remain focused on improving the quality of our customer base. Whilst this resulted in a small decline in the number of customers and the net loan book versus the prior year, there was also a significant improvement in the rate of impairment as a percentage of revenue. This, together with the benefit of a more streamlined management structure since the beginning of 2019 meant that normalised operating profit increased by 36% to £9.1m (2018: £6.7m). As noted at the time of the half year results, despite this strong performance, the decline in valuations of most listed companies in the non-standard sector since the end of 2018 meant that we reduced the carrying value of the Loans at Home goodwill asset on the balance sheet by £12.5m. This non-cash charge has been treated as an exceptional item in the consolidated statement of comprehensive income (see note 8 to the financial statements).

Offer to acquire Provident Financial plc

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'). Despite receiving acceptances representing approximately 54% of Provident, certain other conditions were not met and the Offer lapsed on 5 June 2019. The Group incurred advisory fees totalling £12.8m in connection with the Offer and these have been included in the 2019 results within exceptional items (see note 8 to the financial statements).

Funding

As at 31 December 2019 the Group had cash at bank of £14.2m (2018: £13.9m) and gross borrowings of £323.2m (2018: £272.8m).

On 11 March 2020 the Group announced that it had entered into a new six-year £200m securitisation facility provided by Ares Management Corporation (NYSE: ARES). The new facility was put in place to repay £120m from the more expensive term loan facility with the remainder available for growth at the Group's branch-based and Guarantor Loans Divisions subject to compliance with financial covenants.

The Board notes that a material uncertainty exists relating to going concern primarily due to COVID-19. Following a series of measures announced on 26 March 2020 and having subsequently drawn down £15.0m from the new securitisation facility, as at 31 May 2020 the Group had increased cash at bank to £60.3m and had total gross borrowings of £345.0m. Whilst the impact of COVID-19 on the loan book has prompted a breach of certain performance covenants, preventing further drawdown on the new facility, negotiations with the lender have been positive and temporary relief has been provided until 29 June 2020 whilst a more permanent agreement is reached. Until such agreement is concluded there exists material uncertainty over the ability of the Group to draw down further on the facility. In the event that no agreement is reached or the temporary relief is not extended then the Group has sufficient cash resources to repay the amount drawn under the new facility in full. The Board is in discussions with its lenders regarding possible future covenant waivers, whilst at the same time evaluating all funding options, which may include the issue of equity, in order to ensure the Group has a strong and liquid balance sheet. Combined, it is hoped that these actions will unlock access to the facility and help to reduce overall funding costs as well as provide additional finance for future growth.

Regulation

The Group has continued to participate in a number of ongoing thematic reviews being conducted by the FCA including responsible lending, repeat lending and vulnerable customers. The FCA has also continued to progress its multi-firm review of the guarantor loans sector and the Group has received feedback regarding the information provided to guarantors at the point of lending which the industry is now working on embedding into existing lending processes.

Complaint handling is another area of focus and whilst the number of complaints raised with the Financial Ombudsman Service ('FOS') increased in 2019, it remains low in absolute terms and is monitored closely as part of the Group's risk management framework.

On 2 April 2020, the FCA announced a series of measures as part of a coordinated effort to support borrowers affected by the outbreak of COVID-19. Of particular note was the proposal that consumer lending firms offer those borrowers in difficulty, or that might reasonably expect to be in difficulty at some point in the future, a 'payment freeze' of up to three months, during which they would not be required to make any payments on their outstanding loan but during which interest could continue to be charged. On 19 June 2020, the FCA announced that the option of a payment freeze for borrowers experiencing difficulty due to COVID-19 would be extended to 31 October 2020. Forbearance is already a key feature of our business model and, together with the rest of the industry, we have been working with the FCA, HM Treasury and FOS to ensure that such a payment freeze is implemented effectively and reaches those borrowers that need help.

We continue to monitor all regulatory developments closely and aim to anticipate any proposed changes to the regulatory regime that may affect one or more of our businesses so that we can be well-prepared to implement them if required, or if we believe they will improve the experience of our customers.

A summary of the more pertinent regulatory developments during 2019 and into 2020 are available on the Group's website: **www.nsfgroupplc.com**.

COVID-19, current trading, outlook and final dividend

On 26 March 2020 the Group announced a series of steps to safeguard the health and safety of our customers, our staff and self-employed agents. The steps taken were also designed to mitigate, as far as possible, the impact of COVID-19 on our operational and financial performance and to avoid putting our business at risk. They included a number of measures to reduce costs and save cash such as a reduction in staff numbers, the furloughing of over 120 employees, the deferral of payments to the UK tax authorities and the cancellation of all Executive Director bonuses linked to financial performance in respect of 2020.

Each of the Group's three divisions is continuing to trade in an unprecedented business environment and since late March 2020 lending volumes have reduced significantly with the result that as at the start of June 2020 the combined net loan book had reduced by around 9% since the year end. Having revised our scorecards and adjusted our lending process in all three divisions, we have slowly restarted lending and whilst encouraged by the volume of applications received, we remain cautious. While overall basic collections (before settlements) in April and May 2020 averaged 86% of the level in January and February 2020, this was better than might have been expected and the business as a whole generated positive cash flow after all expenses of approximately £7.4m in April 2020 and £17.2m in May 2020.

The full impact of COVID-19 on the Group's future financial performance is highly uncertain and will be heavily influenced by a number of factors including the severity and duration of the pandemic as well as the way in which both government and consumers respond. The Group is working through the implications of the COVID-19 payment freeze for IFRS 9 provisioning and will continue to monitor the performance of customers as their payment freeze ends. The short-term impact has been a reduction in income from lending activities, together with an increase in expected credit losses, although collections are holding up well and based on conversations held to-date we believe that the majority of home credit customers that have asked for a temporary payment freeze will return to making their regular payments in due course. The Guarantor Loans Division has a higher percentage of COVID-affected customers than the other two businesses which is leading to higher levels of delinquency.

Looking ahead and based on the experience of previous economic downturns, we also expect that any tightening of credit by mainstream lenders will result in increased levels of demand for non-standard finance in the future and from better quality applicants. Subject to funding, this could represent a significant opportunity for the Group with its established infrastructure and strong market position in branch-based lending, guarantor loans and home credit.

Having written down the goodwill assets of all three divisions in 2019, the Group notes that the further decline in market multiples due to COVID-19 is likely to result in further goodwill impairment post 31 December 2019. The Group has identified that on the basis of actual earnings for the year ended 31 December 2019, a further 1% drop in price earnings multiples would result in c.£0.8m of additional impairment of goodwill at the branch-based lending division, and reduce the level of existing headroom in relation to the carrying value of the home credit goodwill asset by £0.6m. As at 31 December 2019, total goodwill in relation to the Guarantor Loans Division had been fully written-off.

Given the difficulty in predicting the balance of these uncertainties, we have withdrawn all previous market guidance and medium-term targets until further notice but plan to provide further updates as and when appropriate.

The Group declared a half-year dividend of 0.7p per share in August 2019 (2018: 0.6p). As announced on 26 March 2020, the Board is not recommending or paying a final cash dividend in respect of the year ended 31 December 2019. Whilst the goodwill impairment outlined above is non-cash in nature, together with the amortisation of acquired intangibles (also non-cash in nature), the prior year adjustment and other exceptional items, the Company no longer has any distributable reserves. To address this, the Board is committed to completing a process, subject to shareholder and Court approval, to create sufficient distributable reserves so that the Company is able to resume the payment of cash dividends to shareholders as soon as it is appropriate to do so.

Going concern statement

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 and Viability Statement.

As a result of the impact of COVID-19, the Group has at the date of signing the accounts, breached its portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. However, recognising that such a breach is as a result of COVID-19 which is beyond the Group's control, Ares has granted a temporary waiver for this breach covering the period up to 29 June 2020 so as to allow time for a more permanent solution to be agreed. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the securitisation facility in full.

As set out on pages 87 to 88, as part of its going concern assessment, the Directors reviewed both the Group's access to liquidity and its future balance sheet solvency. For liquidity, the Group produced two scenarios: (i) a most likely (or 'base case') scenario which involves restricted lending across the Group in order to mitigate the risk of covenant breaches; and (ii) a downside scenario which applies stresses in relation to the key risks identified in the base case.

Under the base case, we have assumed the waiver granted by Ares is extended and no repayment of currently drawn amounts is made. Whilst the headroom which exists in the financial covenants remains very tight, the Group does not expect to breach any further covenants in the next 12 months and therefore would not require further covenant waivers from its lenders in order to remain viable. The Group has considered a stress to the base case where it is required to repay the £15m currently drawn under the securitisation facility. Under this stressed scenario the Group still does not expect to breach any further covenants over the next 12 months.

Under the downside scenario, the Group would be expected to breach certain covenants during the next 12 months and would therefore require waivers from its lenders in order to remain viable. The Group additionally ran a liquidity reverse stress test on the base case to identify the level expected collections would have to fall by to cause the Group to deplete all cash reserves. This assumes no further lending and a corresponding fall in collections with no change to operating expenses. The result of this showed that collections would have to fall by a further 65% from expected forecast levels in the base case for the Group to become illiquid, assuming no access to further funding. Such a reduction in collections, based on evidence to date was thought by the Directors to be an unlikely event.

With regards to balance sheet solvency of the Group, the Directors note that under both scenarios, the Group and Company remained in a net asset position and upon adding a further stress to write-off all remaining goodwill on the balance sheet as at 31 December 2019, the Group and Company remained solvent. The Directors noted that a material uncertainty exists regarding the impact of COVID-19 on the assumptions made and subsequent outcomes as well as the ultimate impact on covenants both under both the base case and downside scenarios which may cast significant doubt on the Group and Company's ability to continue as a going concern.

The Directors felt that the range of assumptions made in both the base case and downside scenario were such that given the uncertainties around the full general and idiosyncratic impact of COVID-19, there remained a material level of uncertainty around the impact on the Group's ability to meet its covenants and if they weren't met, the likelihood of a further waiver being granted by the lenders as well as the full impact on the Group's balance sheet.

The Directors acknowledge the considerable challenges presented by the outbreak of COVID-19 and the material uncertainty created for the going concern status of the Group and Company. However, following a number of steps taken by the Group (reduced lending volume across all three divisions, a reduction in staff numbers, the furloughing of a number of staff and the deferral of payments to the UK tax authorities) and despite the material uncertainty associated with forecast assumptions, purely as a consequence of COVID-19 as noted above, it is their reasonable expectation that the Group and Company will continue to operate and meet its liabilities as they fall due for the next 12 months and therefore has adopted the going concern basis of accounting.

Given the widespread government-led support to businesses, the steps taken by UK regulators as well as some market data from analogous situations and discussions held with each of the Group's lenders, should the Group find itself in a position where it is faced with further covenant breaches, the Directors have a reasonable expectation that the Group's lenders will agree to waive potential covenant breaches to an extent, albeit at a higher cost. The Directors note that current negotiations with lenders suggest that whilst it is likely that waivers would be given, at a cost, to cover reasonable deviations from the base case scenario, waivers which would be required to fully cover the downside scenario are beyond what is currently envisaged in the negotiations. There is therefore a material uncertainty regarding whether the Group would be able to operate within the limits set by its lenders in such a scenario. As mentioned above, the Group notes that as at the date of signing the accounts, there has been a breach of portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. This has arisen as a result of the impact of COVID-19. Recognising the portfolio performance covenant breach is as a result of factors beyond the Group's control, a temporary waiver has been granted by its lender for this breach covering up to 29 June 2020 to allow time for permanent changes to the treatment of COVID-19 flagged loans be agreed. As set out above, management expect that the waiver will be extended for a defined period should negotiations not reach a conclusion by 29 June 2020. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the securitisation facility in full. The Group is not currently in breach of any other covenants associated with the securitisation facility and is currently not in breach of covenants associated with the term loan and RCF facilities. The assumption of lender support for covenant breaches forms a significant judgement of the Directors in the context of approving the Group's going concern status.

As highlighted above, whilst the Directors believe the Group and Company will remain a going concern, a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Such a material uncertainty includes the impact of potential reduced levels of collections and lending on the Group's financial performance, compliance with existing financial covenants and whether waivers will be granted by lenders (and under what terms) in the event of a further covenant breach. The Directors will continue to monitor the Group and Company's risk management, access to liquidity, balance sheet and internal control systems as well as lending and collections.

Annual General Meeting

The AGM of the Company is scheduled to take place on 30 June 2020. A separate notice of meeting has already been dispatched to shareholders and a copy is available from the Group's website: www.nsfgroupplc.

As the 2019 audit has taken longer to complete than expected and in accordance with DTR 4.1.3R, the Company has used the additional time granted before publishing audited accounts, to consider "all aspects of their business and operations" and to ensure that the forward looking elements of our Annual Report adequately considered and took into account the impact of the pandemic insofar as possible upon the business.

Given the timescales, it has been necessary to apply to Companies House for an extension to the filing date of the Group's audited accounts. As the anticipated date for completion of the audited accounts did not allow a clear 21 days' notice prior to the required AGM date, the Company is required to hold a separate general meeting to approve our audited accounts. This will now take place on 28 July 2020 and the notice of meeting has been dispatched to shareholders with the Annual Report.

John van Kuffeler
Group Chief Executive
25 June 2020

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.

Overview

We have long believed that while consumer tastes can change and new products and channels can emerge, the core elements of what good lending looks like remain the same:

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

Each of our businesses is focused on lending and collecting according to strict protocols that have been founded and developed over many years based on each of these principles.

Progress and outlook

Having the right policies and procedures, as well as a well-invested infrastructure, are vital for any successful regulated lending business. They will however, only get you so far. Without the right people, behaving the right way and with the right values, no business can obtain or sustain industry leadership. In 2019, as well as improving and expanding our infrastructure, we continued to invest in the recruitment and training of high-quality staff and self-employed agents. We also invested in a series of initiatives to promote our corporate values and behaviours such as culture workshops, management conferences and regular communication via the Group's intranet for which we were recognised with an award for innovation.

Impact of COVID-19

Being a leader sometimes requires you to take difficult short-term decision so that you sustain your leadership position for the long term. The COVID-19 pandemic required that we implement a number of operational and procedural changes quickly in order to protect the health and safety of our people and customers. It is a testament to the strength of our culture and the quality of our people that those changes were made swiftly and without incident in March 2020.

The long-term impact of the pandemic on the Group's business remains unknown and so, as at the date of this Annual Report, the Group has withdrawn forward-looking guidance and medium-term targets for the majority of our key performance indicators. It is hoped that the Board will soon be able to once again provide such guidance but until then, such KPIs remain under review.

> "By being a leader, we are better placed to meet our objectives for the benefit of our key stakeholders"
>
> **John van Kuffeler**
> Group Chief Executive

Everyday Loans was named Non-Mainstream Loan Provider of the Year in the prestigious Moneyfacts Consumer Awards 2020.

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 uk.trustpilot.com is a consumer review website founded in Denmark in 2007 which hosts reviews of businesses worldwide. Nearly one million new reviews are posted each month. The rating shown is for George Banco out of a maximum of 5 and is based on 2,952 reviews (2018: 4.8 out of 5 based on 2,289 reviews)

3 Percentage of respondents to a customer survey that said they were very satisfied or quite satisfied. 2019 KPI relates to the period from January to December 2019, based on 800 responses. 2018 KPI relates to the period from January to December 2018, based on 300 responses. 2017 KPI relates to the period from July to December 2017, based on 299 responses.

4 Key performance indicators are on the basis that IFRS 9 had been adopted from 1 January 2017. See glossary of APMs and KPIs in the Appendix. 2018 KPIs have been restated following a prior year adjustment (see note 1 to the financial statements).

KPI measure	2019 KPI	2019	2018	2017	Medium-term target	2019 status
Number of active customers Evidence that our reach and quality of service is driving customer volumes. The decline in home credit since 2017 was following a period of exceptional growth and reflects the mature nature of the UK's home credit market.	Branch-based lending	75,400	61,200	47,050	Branch-based lending **Under review** (2018: 100,000)	Amber
	Guarantor loans	32,600	25,100	17,400	Guarantor loans **Under review** (2018: 50,000)	Amber
	Home credit	92,400	93,800	104,100	Home credit **Under review** (2018: 120,000)	Amber
Customer satisfaction A lead indicator of future business volumes given our numbers of repeat customers and customer referrals.	Branch-based lending[1]	4.9/5	4.9/5	4.8/5	Branch-based lending[1] **>4.5/5** (2018: 4.5/5)	Green
	Guarantor loans[2]	4.8/5	4.5/5	4.6/5	Guarantor loans[2] **>4.5/5** (2018: >4.5/5)	Green
	Home credit[3]	96%	98%	97%	Home credit[3] **>95%** (2018: >95%)	Green
Annual loan book growth[4] 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. Whilst the impact of COVID-19 remains uncertain, we had already moderated our targets in 2019 for all three business divisions reflecting a more cautious macroeconomic outlook.	Branch-based lending	18%	25%	20%	Branch-based lending **Under review** (2018: 20%)	Green
	Guarantor loans	28%	61%	44%	Guarantor loans **Under review** (2018: 20%)	Green
	Home credit	(3)%	2%	20%	Home credit **Under review** (2018: 2%)	Green
Risk adjusted margin[4] Each of our three businesses has very different dynamics. This measure takes into account the different revenue models as well as the different rates of impairment.	Branch-based lending	36.1%	37.0%	34.6%	Branch-based lending **Under review** (2018: 35%)	Green
	Guarantor loans	23.2%	25.8%	29.3%	Guarantor loans **Under review** (2018: 30%)	Amber
	Home credit	122.2%	115.6%	111.4%	Home credit **Under review** (2018: 115%)	Green
Return on assets[4] This shows we are allocating capital properly and on course to deliver the returns required by our shareholders. The continued investment in all three divisions and an increase in provisioning in 2019 means we are not yet at our target in branch-based lending or guarantor loans.	Branch-based lending	14.8%	15.8%	15.3%	Branch-based lending **Under review** (2018: 20%)	Amber
	Guarantor loans	9.3%	11.2%	13.1%	Guarantor loans **Under review** (2018: 20%)	Amber
	Home credit	25.1%	17.7%	(4.8)%	Home credit **Under review** (2018: 20%)	Green

- 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

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.

Overview

In 2019 we completed the following investments:

- **Branch-based lending** – eight new branches opened, staff expansion and further IT investment including a move to cloud-based infrastructure.
- **Guarantor loans** – staff expansion and integration onto a single site in Trowbridge.
- **Home credit** – significant improvements to our infrastructure in support of our self-employed agents, helping us to deliver a better service to customers.

Progress and outlook

The eight new branches opened by Everyday Loans in 2019, as well as the expansion of a number of existing branches, saw us add a net 70 new staff during the year. In guarantor loans the total number of staff increased by 26, despite having consolidated our operations into a single location in Trowbridge that resulted in the loss of 23 roles in Bourne End. In home credit, we introduced a number of additional features to our handheld technology including automated income verification, the ability to take card payments on the doorstep and an all new agent scorecard, recognising the higher standards of underwriting by our most experienced agents.

Impact of COVID-19

Each of our business divisions is well-invested and therefore well-placed to take advantage of any increase in demand for our products and services. The outbreak required that we develop new ways of working and prompted a significant investment in remote-working technology and systems so that we can now operate much more flexibly, to the benefit of our staff and customers.

Whilst our immediate focus following the outbreak was to conserve cash flow within the Group, we have adjusted our scorecards, revised our lending processes and are determined to ensure that we can take full advantage of any increase in demand from applicants that are unable to borrow from their high street bank or other mainstream lenders.

100%

During December 2019, one of our busiest months of the year in terms of lending for home credit firms, our digital applications enjoyed 100% uptime.

> “The investment made over the past few years ensures that each of our divisions is well-placed to support a much larger business in the future.”
>
> **Jono Gillespie**
> Chief Financial Officer

Darlington was one of eight new branches opened in 2019.

KPI measure	2019 KPI		Medium-term target	2019 status
Number of branches/offices	**Branch-based lending**	2019: 73 2018: 65 2017: 53	**Branch-based lending** **100-120** (2018: 100-120)	
By increasing our geographic coverage we can be more accessible to customers. We have reduced the target in home credit, reflecting the mature nature of the market.	**Home credit**	2019: 64 2018: 66 2017: 69	**Home credit** **65-70** (2018: 75-80)	
People turnover	**Branch-based lending**	2019: 20% 2018: 20% 2017: 19%	**Branch-based lending** **20%** (2018: 15%)	
We aim to keep this within industry norms by offering competitive financial rewards and creating environments where people enjoy their work.	**Guarantor loans**	2019: 42% 2018: 36% 2017: 37%	**Guarantor loans** **20%** (2018: 20%)	
The relatively high rate in guarantor loans in 2019 reflects the pace of growth as well as the consolidation of our operations into a single location.	**Home credit[1]**	2019: 2% 2018: 3% 2017: 3%	**Home credit[1]** **<5%** (2018: <5%)	
Percentage of the number of loans issued to new customers[2]	**Branch-based lending**	2019: 72% 2018: 73% 2017: 70%	**Branch-based lending** **65-70%** (2018: 65-70%)	
We need to continue to attract new customers as well as look after existing ones if we are to succeed. New customers are most important for our two fastest growing businesses: branch-based lending and guarantor loans. In home credit, the short-term nature of the loans issued means that there is a much greater proportion of lending to previous or existing customers.	**Guarantor loans**	2019: 77% 2018: 64% 2017: 62%	**Guarantor loans** **65-70%** (2018: 65-70%)	
Whilst we have maintained the medium-term target at previous levels, these are unlikely to be achieved in 2020 following the impact of COVID-19.	**Home credit**	2019: 21% 2018: 17% 2017: 26%	**Home credit** **15-20%** (2018: 15-20%)	

1 Average monthly turnover of self-employed agents, excluding vacancies (monthly leavers as a percentage of total number of agents).
2 Proportion of loans booked in a year to new borrowers (i.e. excluding existing or previous 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 easy to say but harder to do. Being responsible remains at the heart of our business values and culture and we work hard to ensure that it is embedded into all of our behaviours, policies and procedures.

Overview

Balancing the needs and objectives of individual stakeholder groups including customers, investors, employees, partners and the communities where we work, is the challenge faced by all stewards of corporate enterprise. During 2019 we continued to focus on those areas of potential risk to determine whether or not our working practices can be improved or whether they can or should be changed.

Progress and outlook

One key area of focus for the Board has been on the wellbeing of our people and in particular on mental health. Everyday Loans introduced a new 'Healthy Minds' hub on the Company intranet in August 2019 and 16 members of staff have been trained to become mental health first aiders to support staff across the branch-based network. Loans at Home has also begun a process to train 16 mental health first aiders in conjunction with AXA PPP. The training will give participants the confidence to support someone who is experiencing a mental health problem, the skills to provide help on a first aid basis, helping with suggesting ways to prevent the mental health issue/problem from becoming worse, guiding someone towards the right support for them, helping to reduce the stigma around mental health and learning how to develop psychological resilience.

By raising awareness internally, our staff will also be better placed to identify and support any of our customers that may be facing similar challenges.

NSF is a founding supporter of Loan Smart, a charity established to help raise awareness about the dangers of illegal lending. In 2019, members of our staff joined a number of community-based events around the UK including those in Darlington, Dunfermline and West Fife, Gosport, North Tyneside, Poplar and Limehouse and St Helens. We expect to do more of the same in 2020. See more at www.loansmart.org.uk.

Impact of COVID-19

As the COVID-19 outbreak was starting to unfold during March 2020 and in advance of the government restrictions coming into force, we sent office-based staff home and made arrangements for them to be able to work remotely. We also advised self-employed agents that they were not to attend customers' homes and that we would make arrangements for customers to be able to make regular payments through alternative channels. This approach has been well received by our staff, self-employed agents and customers.

As noted elsewhere in this Annual Report, given the difficulty in assessing the longer-term impact of COVID-19 on a number of our performance metrics, several medium-term KPI targets overleaf are currently under review.

> "We have long recognised that through regular engagement and being sensitive to the needs of our key stakeholders, we will be better placed as a business to meet our long-term objectives."
>
> **Heather McGregor**
> Chair, Risk Committee

A Loan Smart community event in Dunfermline, Scotland where the local teams from Everyday Loans and Loans at Home were joined by Douglas Chapman MP to raise awareness about the dangers of illegal lending.

KPI measure	2019 KPI	Medium-term target	2019 status

Impairment as a percentage 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.

Having increased the medium-term targets in 2019 to reflect a more uncertain outlook, these are now under review following the outbreak of COVID-19.

	2019	2018	2017	Medium-term target	2019 status
Branch-based lending	22.2%	22.7%	21.5%	Under review (2018: 20-22%)	
Guarantor loans	26.8%	20.5%	15.5%	Under review (2018: 13-17%)	
Home credit	27.0%	32.6%	37.6%	Under review (2018: 33-37%)	

Number of FOS complaints upheld as a percentage of total number of customers[2]

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. Whilst there was an increase in 2019, the number of upheld complaints to the Financial Ombudsman Service as a proportion of the total customer base remains low.

	2019	2018	2017	Medium-term target	2019 status
Branch-based lending	0.06%	0.02%	0.03%	<1%	
Guarantor loans	0.07%	0.02%	0.03%	<1%	
Home credit	0.03%	0.01%	0.01%	<1%	

Staff engagement surveys

We have over 940 staff that remain critical for ensuring we deliver a great service for our customers and benefits for our other stakeholders. High levels of engagement and commitment are critical to that endeavour and without it we will fail.

	2019	2018	2017	Medium-term target	2019 status
Branch-based lending[3]	75%	98%	71%	>70% (2018: 98%)	
Guarantor loans[3]	75%			>70%	
Home credit[4]	83%	82%	89%	>75% (2018: 82%)	

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 2019 included Prostate Cancer and Loan Smart.

1 Key performance indicators are on the basis that IFRS 9 had been adopted from 1 January 2017. See glossary of APMs and KPIs in the Appendix. 2018 KPIs have been restated following a prior year adjustment (see note 1 to the financial statements).
2 As at 31 December 2019.
3 Figure for 2019 is the overall percentage scored out of 100% based on 434 responses across Everyday Loans and Guarantor Loans Division covering a range of measures rating 'your company' in June and July 2019. Prior year surveys at Everyday Loans measured percentage of staff that scored at least 4 out of 5 in response to the question 'I am satisfied working at Everyday Loans' – leadership surveys in May 2018 and November 2017. There were no comparable surveys for guarantor loans in 2018 or 2017.
4 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 2019 (2018: Q4 2018).

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

Managing risk is a key element of our business model

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.

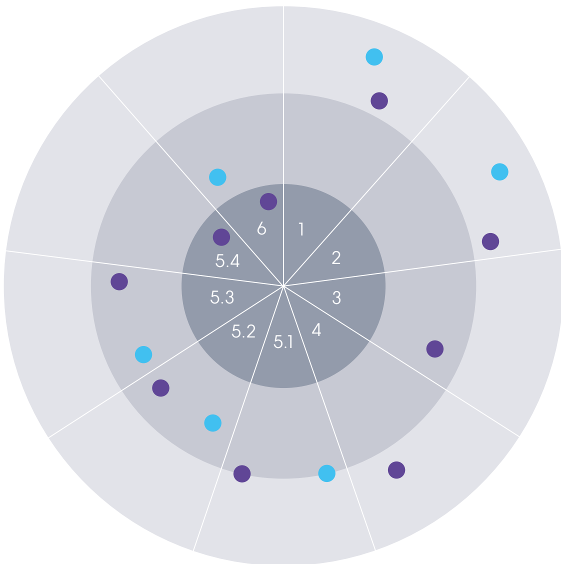
During 2019, we continued the process of embedding Xactium, the Group-wide risk management system that was first deployed in 2018, into all areas of our business. As expected, the new system has helped to improve our first line risk management activity and has also provided executive management and the Board with clear second line oversight across the Group (see definition of the three lines of defence in section 1 of the table overleaf). Whilst the process of fully integrating the system into all of our risk management processes and procedures should be completed during 2020, there has already been a marked improvement in the quality and depth of risk management and reporting for all three business divisions, as well as for the Group as a whole.

In 2020, the UK economy has been severely impacted by the COVID-19 pandemic that has also affected the operations and financial performance of all three of the Group's divisions. As a result, this has been added as a new key risk and although it was added after the year end, it is judged to be a high risk for the Group.

The chart opposite provides an update to the current status of the principal risk categories identified by the Board (i.e. those with the highest residual risk ratings for the Group). The following table provides further detail and seeks to identify 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.

For further information on our approach to risk, please see the Risk Committee report on page 93.

Our principal risk categories



Very high
High
Medium

2019 assessment
2018 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
5.4 Business risk – coronavirus (COVID-19)[1]
6 Funding and liquidity

1 New principal risk.

Risk definition	Mitigation	Change in 2019	Explanation
1. Conduct			
Inappropriate or sub-standard behaviour by the Group's representatives resulting in poor outcomes for customers	• A strong culture, together with the right 'tone from the top' results in a business committed to 'doing the right thing' and delivering the right outcomes for customers • Extensive training across all three divisions with over 5,400 training days in 2019 • On an isolated basis, incidents can result in customer detriment owing to human and/or operational failures. Where such incidents occur they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and to prevent recurrence • Close and active monitoring of customer complaints • Clear policies and procedures, including whistleblowing • Carefully designed and balanced incentive programmes with appropriate malus and clawback provisions when required standards are not met • Diligent application of 'three lines of defence': 1. policies, procedures and quality assurance in customer-facing roles; 2. compliance and conduct assurance; and 3. internal audit.	>	We continue to invest in our compliance and regulatory oversight. During 2019 we added a total of nine additional regulatory and compliance staff across the Group and all three divisions now have a Risk and Compliance Director in place, each of whom reports to their respective CEO as well as the Group Chief Risk Officer. This helps to ensure a consistent approach in our management of key risks, including conduct risk across the Group. Following a detailed review of the compliance functions in all three divisions, a number of enhancements were implemented and verified by KPMG as part of its role as internal auditor for the Group. While the number of upheld complaints at FOS remains low at less than 0.1% of total customer accounts in all three divisions, the number has increased versus 2018. The Group is working with FOS to ensure a consistent approach and also to improve our service to customers.
2. Regulation			
All authorised firms are subject to a rigorous approval process as well as ongoing supervision by the FCA. Non-compliance can result in fines or loss of authorisation to operate. A list of the key regulatory developments over the past year is available on the Group's website: **www.nsfgroupplc.com**.	• Open and active engagement with the FCA as well as industry peers • Diligent monitoring/assessment of all regulatory change 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	>	Each of the Group's business divisions is fully authorised by the FCA and is committed to the highest standards of regulatory conduct. However, given the scale and complexity of regulatory changes, we acknowledge that there may be isolated instances in which our response to new regulatory requirements may be subject to interpretation risk. Having now completed a multi-firm review in 2019, the FCA has recommended some operational changes in the guarantor loans sector including, inter alia, a requirement to enhance the disclosures given to guarantors at the point of lending. These changes are not expected to have any material impact on the Group. The FCA continues to conduct a rolling programme of research and thematic reviews to maintain its oversight of various sectors of the non-standard finance market and this work remains ongoing. The FCA requirement to provide borrowers affected by COVID-19 with an emergency payment freeze may result in an increase in provisions and lower net book values (see principal risks 5.4 and 6 below).
3. Credit			
Any marked increase in the rates of impairment 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	^	Whilst rates of impairment in home credit declined during 2019, the levels of impairment in branch-based lending and guarantor loans were impacted by an increase in the number of rescheduled loans, a change in focus on charge-off and an increase in the macroeconomic risk weighting of a stressed scenario (see note 2 to the Financial Statements) that then required an increase in provisions. While the impact of COVID-19 remains uncertain, it is expected that credit risk will increase in 2020 as a result of a major slowdown in the UK economy. However, the Group has high risk-adjusted margins and is highly experienced in providing forbearance to help customers get back on track.

v Decreased ^ Increased > Unchanged

Risk definition	Mitigation	Change in 2019	Explanation
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	Increased	In 2019 the Group delivered good loan book growth in two out of three businesses with all achieving high risk-adjusted margins. On 22 February 2019, the Company announced a firm offer to acquire Provident Financial plc that lapsed on 5 June 2019. While the Group incurred £12.8m in transaction-related costs that are included within exceptional items within the Group's full-year results (see note 8 to the financial statements), there was no material impact on the Group's strategy or business operations. The Group has a number of significant institutional shareholders. Whilst engagement to date indicates that they remain supportive of the Group's overall strategy, this may change in the absence of a recovery in the Group's share price.
5.1 Business risk (operational)			
Key areas of operational risk for the Group include: • external factors resulting in business failure or balance sheet impairment • IT failure • integration of George Banco and TrustTwo onto a single technology platform • fraud • process failure and/or human error • restrictions on being able to conduct business face-to-face • 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	• The Group's Risk Committee regularly assesses the Group's external risks that are reported to the Board. The Board then considers and develops strategies designed to mitigate them • IT policies are in place to mitigate risk including disaster recovery plans • Phase II of the technical integration of TrustTwo and George Banco is expected to complete during 2020 • 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 technology platform – these will continue to be managed on the previous system that will be decommissioned when all loans have matured (expected within two years). All three businesses have disaster recovery plans in place and these have been reviewed during the course of the year. While the impact of the COVID-19 outbreak on the Group's business remains unclear, contingency plans are in place to safeguard the health and safety of staff and self-employed agents, as well as mitigate any impact on business performance. The shift to homeworking was smooth and without incident and all three businesses are now able to lend and collect remotely. The government has conducted 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)			
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. Further declines in stock market multiples may impact the value of goodwill assets on the Group's balance sheet. 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 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 and funding, have an accurate picture of what the Group is trying to achieve, our ethos, culture and business strategy • Whilst still 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 page 4)	Unchanged	We continue to engage actively with all of our key stakeholders, including customers, regulators, suppliers, Members of Parliament, debt-related charities, the media, think-tanks, investors and debt providers (see Stakeholder management and our commitment to Section 172 on pages 46 to 59). Through this process of engagement, we aim to demonstrate why we are different from other consumer credit firms and why we believe that NSF stands out from competitors. This has included supporting Loan Smart, a charity focused on helping consumers understand the dangers of illegal lending.

Decreased Increased Unchanged

Risk definition	Mitigation	Change in 2019	Explanation
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 • Regular internal audit and external third-party review of cyber security status across all businesses • Full disaster recovery plans have been developed and are in place for all three operating divisions	Unchanged	Increased criminal activity together with the increasing importance of data and data analytics means that this risk has been identified separately from operational risk. Much of the Group's technology infrastructure is now cloud-based thereby delivering a number of operational benefits including enhanced levels of security.
5.4 Business risk (COVID-19)			
A large pandemic such as COVID-19, coupled with restrictions on face-to-face contact as imposed by HM Government, may cause significant disruption to the Group's operations and severely impact the level of supply and demand for the Group's products. As a result, any sustained period where such measures are in place could result in the Group suffering significant financial loss.	• The Group has full business continuity plans in place, including the ability to shift staff to remote-working whilst still retaining full access to all relevant systems and technology • All three business divisions are able to lend and collect remotely, without the need for face-to-face contact with customers • HM Government has put a series of measures in place to support the economy and to help soften the impact on the business community • The Group has long-term funding in place and is able to generate positive cash flow by reducing significantly the level of lending across the Group	Increased	COVID-19 began to impact the UK economy in March 2020. Whilst in the short-term it is expected that the Group will experience a reduction in income from lending activities, together with an increase in ECL due to the pandemic, the Group also believes that there could be an increase in demand for its products and services. As it remains unclear as to when the situation may begin to normalise and how the business might perform, COVID-19 remains a high risk for the Group. The FCA requirement to provide borrowers affected by COVID-19 with an option of an emergency payment freeze may result in a significant increase in provisions and lower net book values.
6. Funding and 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 • it has failed to renew/replace existing debt facilities as they become payable • it cannot fund growth and further acquisitions • declines in net book value may impact the Group's ability to access existing debt facilities	• 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 March 2020 with a new £200m six-year securitisation facility. The new facility was put in place to repay a proportion of the Group's existing term loan facility as well as to fund loan book growth, is at a significantly lower cost than the Group's term loan facility • At the end of 2019 the Group had in place a £285m term loan facility which is not repayable until August 2023 and is supplemented by a £45m revolving credit facility that is not repayable until August 2022 • Cash and covenant forecasting is conducted on a monthly basis as part of the regular management reporting exercise	Increased	Whilst the impact of COVID-19 on the loan book has prompted a breach of certain performance covenants, preventing further drawdown on the new facility, negotiations with the lender have been positive and temporary relief has been provided until 29 June 2020 whilst a more permanent agreement is reached. Until such agreement is concluded there exists material uncertainty over the ability of the Group to draw down further on the facility. In the event that no agreement is reached or the temporary relief is not extended then the Group has sufficient cash resources to repay the amount drawn under the new facility in full. However, the Group is discussing covenant waivers with its lenders and has already taken a number of steps to generate positive cash flow and conserve cash within the business. If the FCA requirement to provide borrowers affected by COVID-19 with an option of an emergency payment freeze and/or poor business performance results in a significant increase in provisions and lower net book values, there is a risk that the loan-to-value covenants for the Group's debt facilities may come under pressure leading to a risk that the Group will be unable to access its facilities.

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

Decreased Increased Unchanged

2019 full-year results

A solid underlying performance in 2019 was masked by a large statutory loss due to exceptional items

Jono Gillespie
Group Chief Financial Officer

Normalised revenue was up 10% to £183.7m (2018: £166.5m) reflecting good loan book growth in both branch-based lending and guarantor loans. The increase in reported revenue was slightly higher at 14% to £180.8m (2018: £158.8m) reflecting the reduced unwind of the fair value adjustment made to the George Banco loan book at the time of its acquisition in August 2017. Modification and derecognition losses increased by £1.4m in aggregate versus the prior year reflecting an increase in forbearance given to customers in the form of either rescheduled or deferred loans. An increase in provisions at branch-based lending and guarantor loans meant that overall impairment costs increased by 3% to £45.1m (2018: £43.7m) and administration costs increased by 8% to £95.8m (2018: £89.1m) leaving normalised operating profit up by 20% to £42.2m (2018 restated: £35.1m).

The Group incurred a number of exceptional items during the year including fees associated with the firm offer to acquire Provident Financial plc and restructuring costs that together totalled £14.7m (2018: £nil). There was also a non-cash impairment to the value of goodwill for each of the Group's business divisions totalling £65.8m (2018: £nil) following the significant decline in values of listed companies in the non-standard finance sector (see note 15).

A prior year adjustment of £4.0m was made to the loan loss provision on the Group's balance sheet dating back to the transition to IFRS 9 at the beginning of 2018 with a consequent reduction in net assets by £3.5m after accounting for deferred tax effects. Finance costs increased to £27.5m (2018: £21.1m) reflecting the loan book growth in both branch-based lending and guarantor loans.

The net result was that the Group reported a statutory loss before tax of £76.0m (2018 restated: loss of £2.4m). The tax charge of £0.3m (2018: £0.1m) meant that the reported loss after tax was £76.3m (2018 restated: £2.3m) equating to a reported loss per share of 24.45p (2018 restated: loss per share of 0.74p).

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

Performance dashboard

Group revenue

£183.7m

+10% (2018: £166.5m)

- Branch-based lending
  £93.0m (2018: £79.6)
- Guarantor loans
  £29.8m (2018: £21.7m)
- Home credit
  £60.8m (2018: £65.2m)

Group operating profit

£42.2m

+20% (2018: £35.1m)

- Branch-based lending
  £29.7m (2018: £26.3m)
- Guarantor loans
  £8.8m (2018: £7.5m)
- Home credit
  £9.1m (2018: £6.7m)

Central
£(5.4)m (2018: £(5.4)m)

Group profit before tax

£14.7m

+5% ((2018: £14.0m)

- Branch-based lending
  £12.3m (2018: £13.5m)
- Guarantor loans
  £1.4m (2018: £1.7m)
- Home credit
  £7.0m (2018: £4.3m)

Central
£(6.0)m (2018: £(5.4)m)

2019 Group results

Year ended 31 December 2019	Normalised[1] £000	Fair value adjustments, amortisation of acquired intangibles and exceptional items £000	Reported £000
Revenue	**183,657**	**(2,873)**	**180,784**
Other operating income	954	–	954
Modification loss	(1,181)	–	(1,181)
Derecognition loss	(413)	–	(413)
Impairments	(45,066)	–	(45,066)
Administration expenses	(95,786)	(7,226)	(103,012)
Operating profit	**42,165**	**(10,099)**	**32,066**
Exceptional items	–	(80,584)	(80,584)
Profit/(loss) before interest and tax	**42,165**	**(90,683)**	**(48,518)**
Finance cost	(27,458)	–	(27,458)
Profit/(loss) before tax	**14,707**	**(90,683)**	**(75,976)**
Taxation	(3,261)	2,929	(332)
Profit/(loss) after tax	**11,446**	**(87,754)**	**(76,308)**
Earnings (loss) per share	**3.67p**		**(24.45)p**
Dividend per share	**0.70p**		**0.70p**

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	(78)	–	(78)
Derecognition loss	(129)	–	(129)
Impairments	(43,738)	–	(43,738)
Administration expenses	(89,082)	(8,681)	(97,763)
Operating profit	35,101	(16,359)	18,742
Exceptional items	–	–	–
Profit before interest and tax	35,101	(16,359)	18,742
Finance cost	(21,107)	–	(21,107)
Profit/(loss) before tax	13,994	(16,359)	(2,365)
Taxation	(3,050)	3,108	58
Profit/(loss) after tax	10,944	(13,251)	(2,307)
Earnings/(loss) per share	3.50p		(0.74)p
Dividend per share	2.60p		2.60p

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

Normalised divisional results

The table below provides an analysis of the 'normalised' results for the Group for the 12 month period to 31 December 2019. Management believes that by removing the impact of exceptional items, amortisation of acquired intangibles and fair value adjustments, the normalised results provide a clearer view of the underlying performance of the Group.

Year ended 31 December 2019 Normalised[1]	Branch-based lending £000	Guarantor loans £000	Home credit £000	Central costs £000	NSF plc £000
Revenue	**93,002**	**29,820**	**60,835**	**–**	**183,657**
Other operating income	954	–	–	–	954
Modification loss	(951)	(230)	–	–	(1,181)
Derecognition (loss)/gain	(482)	69	–	–	(413)
Impairments	(20,635)	(7,996)	(16,435)	–	(45,066)
Revenue less impairments	**71,888**	**21,663**	**44,400**	**–**	**137,951**
Administration expenses	(42,235)	(12,895)	(35,298)	(5,358)	(95,786)
Operating profit	**29,653**	**8,768**	**9,102**	**(5,358)**	**42,165**
Finance cost	(17,355)	(7,338)	(2,116)	(649)	(27,458)
Profit before tax	**12,298**	**1,430**	**6,986**	**(6,007)**	**14,707**
Taxation	(2,815)	(113)	(1,474)	1,141	(3,261)
Profit after tax	**9,483**	**1,317**	**5,512**	**(4,866)**	**11,446**
Normalised earnings per share					**3.67p**
Dividend per share					**0.70p**

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	(78)	–	–	–	(78)
Derecognition loss	(97)	(32)	–	–	(129)
Impairments	(18,040)	(4,451)	(21,247)	–	(43,738)
Revenue less impairments	62,761	17,494	43,928	–	124,183
Administration expenses	(36,488)	(9,983)	(37,214)	(5,397)	(89,082)
Operating profit	26,273	7,511	6,714	(5,397)	35,101
Finance cost	(12,778)	(5,833)	(2,461)	(35)	(21,107)
Profit before tax	13,495	1,678	4,253	(5,432)	13,994
Taxation	(2,492)	(618)	(774)	834	(3,050)
Profit after tax	11,003	1,060	3,479	(4,598)	10,944
Normalised earnings per share					3.50p
Dividend per share					2.60p

Reconciliation of net loan book	2019 Normalised[1] £m	2019 Fair value adjustments £m	2019 Reported £m	2018 Normalised Restated £m	2018 Fair value adjustments £m	2018 Reported Restated £m
Branch-based lending	**214.8**	**–**	**214.8**	182.7	–	182.7
Guarantor loans	**105.5**	**1.4**	**106.9**	82.7	4.3	87.0
Home credit	**39.9**	**–**	**39.9**	41.0	–	41.0
Total	**360.2**	**1.4**	**361.6**	306.4	4.3	310.7

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

Branch-based lending

Established over 13 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[1]

c.£275m
2019 receivables outstanding

18%
Estimated compound annual growth ('CAGR') 2014-2017

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

Our customers[2]

£29,520 p.a.
Average income

£3,265
Typical loan size

90.4%
Average APR

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

Year ended 31 December	2019 Normalised[1] £000	2019 Fair value adjustments and exceptional items £000	2019 Reported £000
Revenue	**93,002**	**–**	**93,002**
Other operating income	954	–	954
Modification loss	(951)	–	(951)
Derecognition loss	(482)	–	(482)
Impairments	(20,635)	–	(20,635)
Revenue less impairments	**71,888**	**–**	**71,888**
Administration expenses	(42,235)	–	(42,235)
Operating profit	**29,653**	**–**	**29,653**
Exceptional items	–	(332)	(332)
Profit before interest and tax	**29,653**	**(332)**	**29,321**
Finance cost	(17,355)	–	(17,355)
Profit before tax	**12,298**	**(332)**	**11,966**
Taxation	(2,815)	63	(2,752)
Profit after tax	**9,483**	**(269)**	**9,214**

Year ended 31 December Restated	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	(78)	–	(78)
Derecognition loss	(97)	–	(97)
Impairments	(18,040)	–	(18,040)
Revenue less impairments	62,761	(3,958)	58,803
Administration expenses	(36,488)	–	(36,488)
Operating profit	26,273	(3,958)	22,315
Exceptional items	–	–	–
Profit before interest and tax	26,273	(3,958)	22,315
Finance cost	(12,778)	–	(12,778)
Profit before tax	13,495	(3,958)	9,537
Taxation	(2,492)	752	(1,740)
Profit after tax	11,003	(3,206)	7,797

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

> “Sometimes, not issuing a loan is the best outcome for the customer.”
>
> **Sunjay Dada**
> Customer Account Manager – Everyday Loans

Entrepreneurial leadership

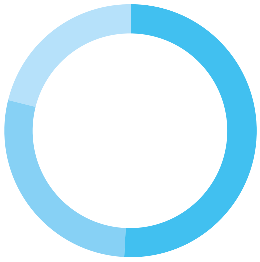
Having joined our Wolverhampton branch in February 2018, Sunjay met with an applicant at the end of 2019 who was seeking a loan of £4,000.

When reviewing the applicant’s circumstances and financial history, it became clear that they had recently borrowed £1,500 from another lender and then transferred the amount to a third party. His suspicions raised, and after having established a good rapport with the applicant, Sunjay discovered that the purpose of the loan was in fact to invest in a bond that would, they had been told, deliver a significant profit for the borrower. After some investigation, Sunjay was in a position to highlight why this might be a scam and why despite being peddled by a friend of the applicant, they should be very careful. Given his concerns about the use of proceeds and how it may impact the applicant’s overall creditworthiness, Sunjay refused to issue the loan, even though it had already been pre-approved. Displaying great leadership and taking the decision not to lend was certainly the best outcome for the customer and sometime later the applicant returned to the branch to thank Sunjay personally for helping him to avoid incurring unnecessary debt and from being defrauded out of a significant sum by what turned out to be a scam.

> We are committed to our face-to-face lending model."

Steven White
CEO, Everyday Loans

Source of branch-based loans booked in 2019



Financial brokers	51%
Direct and other	28%
Renewals/former borrowers	21%

We added eight new branches to the network in 2019 taking the total number to 73 and so have more than doubled the number of branches since acquiring the business in April 2016. The key drivers for growth remained network capacity, lead volume and quality, network productivity and careful management of impairment. A summary of our progress on each of these drivers is highlighted below.

Network capacity – We added 125 new branch staff in 2019 and had a total of 365 front-line staff at the year-end (2018: 325). With staff productivity broadly in-line with the previous year, this increased capacity meant that we were able to increase the number of customers by 23% to 75,400 (2018: 61,200) increasing the net loan book by 18% to £214.8m (2018 restated: £182.7m).

Lead volumes and quality – With an increase in network capacity it was important to deliver a steady flow of high quality leads and our lead volumes increased by 52% from over 1.6 million in 2018 to just under 2.5 million in 2019. Financial brokers continued to be the main source of leads (90% of the total) and completed loans (51% of the total) with direct applications and renewals or former customers making up the balance. The scale of this increase meant that the total number of new borrower applications to branch (or 'ATBs') increased by 36% to 497,050 (2018: 366,000).

Productivity – During 2019 we wrote 16% more loans than in 2018 reaching 52,130 in total (2018: 44,841) and the total value of loans issued increased by 14% to £169.9m (2018: £149.5m).

Delinquency management – Throughout 2019 we maintained a clear focus on delinquency management through a combination of careful underwriting and methodical collections practice. However, despite an increase in provisions due to an increase in the number of rescheduled and deferred loans, a change of focus on charge-off and an increased weighting of a downside macroeconomic scenario, impairment as a percentage of average net receivables reduced to 10.3% (2018 restated: 10.8%) and versus normalised revenue it also reduced to 22.2% (2018 restated: 22.7%).

2019 results

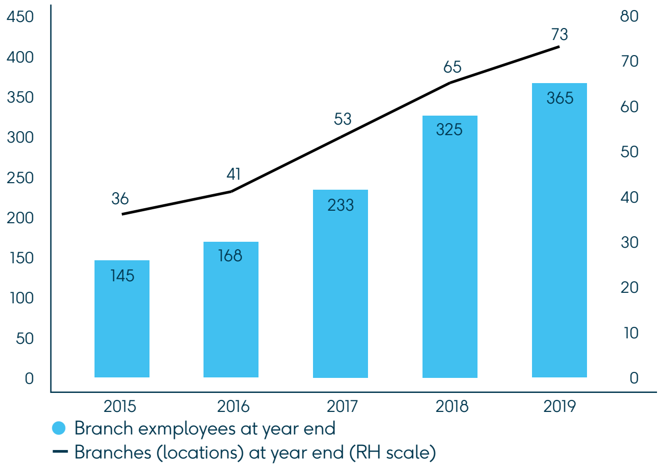
Normalised revenue increased by 17% to £93.0m (2018: £79.6m) as a record number of leads was translated into a record number of both loans booked and new cash issued. As there was no fair value adjustment to the loan book in 2019, reported revenue increased by 23% to £93.0m (2018: £75.6m). A higher modification loss of £1.0m (2018 restated: £0.1m) and associated derecognition loss of £0.5m (2018 restated: £0.1m) reflected an increase in the size of the loan book and the number of rescheduled and deferred loans in the period and was offset to a degree by other operating income of £1.0m (2018: £1.4m) due to debt sales. The growth in the loan book was a key driver behind the increase in impairments to £20.6m (2018 restated: £18.0m).

Despite the additional costs of the eight new branches that opened during the year, administration costs remained tightly controlled and the division's cost:income ratio fell slightly with the net result that normalised operating profit increased by 13% to £29.7m (2018 restated: £26.3m). Now that the fair value adjustment to revenue referred to above has been unwound, reported operating profit increased by 31% to £29.7m (2018 restated: £22.3m).

One-off restructuring and redundancy costs of £0.3m (2018: £nil) were incurred during the second half of the year and treated as an exceptional item in the period.

Higher finance costs of £17.4m (2018 restated: £12.8m) reflected the loan book growth and held back normalised profit before tax that fell 9% to £12.3m (2018 restated: £13.5m). However, the absence of any fair value adjustment to revenue meant that reported profit before tax increased by 25% to £12.0m (2018: £9.5m).

Network expansion



Key Performance Indicators

While there was a slight decrease in revenue yield to 46.4% (2018 restated: 47.8%) the growth in the loan book meant that revenue increased. Whilst impairment as a percentage of revenue reduced, the risk adjusted margin also decreased to 36.1% (2018 restated: 37.0%) due to the reduction in yield. Despite the addition of eight new branches, administration expenses increased slightly less than revenue and so the cost:income ratio reduced to 45.4% (2018: 45.9%).

The net result was that normalised operating profit margin reduced to 31.9% (2018 restated: 33.0%) which, in conjunction with the growth in the loan book, meant that the return on asset was also lower at 14.8% (2018 restated: 15.8%).

Year ended 31 December Key Performance Indicators[1]	2019 Normalised	2018 Normalised Restated
Number of branches	**73**	65
Period-end customer numbers (000)	**75.4**	61.2
Period-end loan book (£m)	**214.8**	182.7
Average loan book (£m)	**200.4**	166.4
Revenue yield (%)	**46.4**	47.8
Risk adjusted margin (%)	**36.1**	37.0
Impairments/revenue (%)	**22.2**	22.7
Impairment/average loan book (%)	**10.3**	10.8
Cost:income ratio (%)	**45.4**	45.9
Return on asset (%)	**14.8**	15.8

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

COVID-19 actions and plans for 2020

The immediate focus has been to mitigate as far as possible the impact of COVID-19 on our staff, customers and the business as a whole. As the scale and depth of any future impact remains uncertain, we have withdrawn all previous guidance and our longer-term plans remain under review.

We shifted to a home-working model in late March 2020 and so were then unable to meet applicants face-to-face in a branch – a situation which, when combined with the challenges in assessing the creditworthiness of applicants in the current environment, reduced lending volumes significantly. Having spent April 2020 developing a revised scorecard and lending process to reflect the latest market intelligence and guidelines for social distancing, our branch network is now open and receiving a healthy volume of leads through our normal channels. Whilst we remain cautious, we have been encouraged by the volume of applications received and are starting to increase lending volume.

Basic collections (before settlements) in April and May 2020 averaged at 94% of pre-lockdown levels which was better than might have been expected and in absolute terms was ahead of that achieved in the same period in 2019. With the lower levels of lending, as at the start of June 2020 the net loan book had reduced by around 7% since the year-end but the business generated net cash in the period and there remains a healthy surplus over administration costs.

We continue to believe that there is significant long-term potential for the branch-based lending business. Having opened 37 new branches since April 2016, we now have a national network and therefore are well-placed to meet any increase in demand from consumers that in the current environment are no long able to borrow from their high street bank or mainstream lender. We also believe that once the macroeconomic backdrop begins to normalise and, subject to funding, there is a significant opportunity to expand the network further over the next three to five years.

Guarantor loans

Our Guarantor Loans Division made solid progress in 2019, driven by strong market demand and further investment.

UK market

c.£1bn
Receivables outstanding[1]

37.5%
Estimated compound annual growth ('CAGR') 2014-2017[2]

4%
Estimated share of the UK non-standard consumer credit market in 2017[2]

Our customers[3]

£27,000 p.a.
Average income

£3,801
Typical loan size

48.0%
Average APR in 2019

1 Speech by Jonathan Davidson, Executive Director of Supervision, FCA – 21 March 2019.
2 Based on data from L.E.K. Consulting, December 2018 and Company estimates.
3 Company data.

Year ended 31 December	2019 Normalised[1] £000	2019 Fair value adjustments and exceptional items £000	2019 Reported £000
Revenue	**29,820**	**(2,873)**	**26,947**
Other income	–	–	–
Modification loss	(230)	–	(230)
Derecognition gain	69	–	69
Impairments	(7,996)	–	(7,996)
Revenue less cost of sales	**21,663**	**(2,873)**	**18,790**
Administration expenses	(12,895)	–	(12,895)
Operating profit	**8,768**	**(2,873)**	**5,895**
Exceptional items	–	(737)	(737)
Profit before interest and tax	**8,768**	**(3,610)**	**5,158**
Finance cost	(7,338)	–	(7,338)
Profit/(loss) before tax	**1,430**	**(3,610)**	**(2,180)**
Taxation	(113)	686	573
Profit/(loss) after tax	**1,317**	**(2,924)**	**(1,607)**

Year ended 31 December Restated	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
Modification loss	–	–	–
Derecognition loss	(32)	–	(32)
Impairments	(4,451)	–	(4,451)
Revenue less cost of sales	17,494	(3,720)	13,774
Administration expenses	(9,983)	–	(9,983)
Operating profit	7,511	(3,720)	3,791
Exceptional items	–	–	–
Profit before interest and tax	7,511	(3,720)	3,791
Finance cost	(5,833)	–	(5,833)
Profit/(loss) before tax	1,678	(3,720)	(2,042)
Taxation	(618)	707	89
Profit/(loss) after tax	1,060	(3,013)	(1,953)

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

“By looking at the bigger picture it was clear that the customer needed our support.”

Julie Fishburn
Customer Resolution Manager – Everyday Loans

Integrity

Julie joined Everyday Loans in May 2015 and helps us to address customer issues if something goes wrong and cannot be resolved in branch.

In 2019, Julie was notified of a case where a loan had defaulted after a customer had been unable to meet their regular payments. The 56-year old customer had come to our Croydon branch in September 2018 and had wanted to borrow £4,000. Having been through her situation thoroughly we offered her a loan of £2,100 which was accepted over 36 months. Having made her first three monthly payments on time, her payment for January 2019 bounced and she informed the branch that she had been defrauded and that both the police and FOS were now involved. The customer was also being threatened by the perpetrator of the fraud, placing her under significant stress. Julie liaised closely with both the police and FOS to determine the facts of the case that resulted in a prosecution of the fraudster being made. It was clear to Julie that whilst we had conducted ourselves properly throughout, the customer was clearly vulnerable and therefore, reflecting our focus on integrity, the appropriate outcome was for the debt to be written-off and the customer's credit file restored.

The customer's response on hearing of Julie's decision is repeated below:

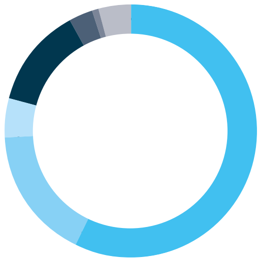
“I want to thank you sincerely for the compassion [you] showed towards me and the considerate outcome you reached. I know it could not have been easy for you.

I want you to know that I did not and would not set out to cause you difficulties in any way. I made a terrible mistake and I thank you for helping to aid my healing process.”

> Speaking to both borrower and guarantor is at the heart of our lending process."

Mark Burgess
CEO, Guarantor Loans Division

Source of branch-based loans booked in 2019



Broker	58%
Top-ups	17%
Organic	5%
Price comparison websites	13%
Everyday Loans online decline	3%
Everyday Loans branch decline	1%
Lead generator	4%

Our Guarantor Loans Division continued to grow strongly in 2019, albeit with a higher rate of impairment. The growth was thanks to high levels of demand from non-standard borrowers in the UK who are attracted by the opportunity to access credit at a much lower APR than if they were to try and borrow without the presence of a guarantor. By making their repayments as planned, borrowers that have historically had a thin or a poor credit file, are able to rebuild or improve their credit score so that, in time, they can access more mainstream credit.

With over 2.5m leads in 2019 (2018: 2.3m) of which 520,100 passed through our scorecard to become qualifying applications (2018: 448,100), the volume of lending also increased, reaching £72m (2018: £65m). We issued a record number of 19,458 loans (2018: 17,393 loans) implying a further improvement in conversion from leads into loans. This strong performance was achieved against a backdrop of a number of important operational developments:

Consolidation of all operations onto a single location – having already consolidated the division's collections activity into the Trowbridge location during the first half of 2019, we followed this with the accelerated transfer of the remaining lending and administration activities in October 2019. While there was some temporary operational disruption following these changes, we expect to realise productivity improvements over the medium-term from being in a single location.

New leadership – we were delighted to appoint Mark Burgess as CEO in October 2019. Having joined the Group as Managing Director of the division earlier in 2019, Mark has a wealth of experience and was previously Central Operations Director of the Consumer Credit Division at Provident and before that Chief Operating Officer of 118118 Money. More recently we have also made some senior appointments to strengthen the management team in both finance and collections.

Channel mix – we remained focused on maintaining a strong position in the important broker market whilst also seeking to attract new customers. A robust performance by our TrustTwo brand ensured that price comparison websites remained an important channel for the division.

Complaint handling and vulnerable customers – we are proud that the quality of our processes and the training we give our staff means that while the total number of complaints we received from customers increased in 2019, it remains low in absolute terms and relative to our peers, as well as compared with a number of other sectors. However, we are not complacent and through industry associations are continuing to work with the regulator to ensure that we can improve our service to customers as evidenced by our investments in complaint handling and a dedicated team for managing vulnerable customers.

The net loan book increased by 28% to reach £105.5m at 31 December 2019 (2018 restated: £82.7m) which is three times the size of the combined loan book at the end of 2016.

2019 results

Loan book growth was the main driver behind a 37% increase in normalised revenue to £29.8m (2018: £21.7m). A smaller fair value adjustment to revenue of £2.9m (2018: £3.7m) meant that reported revenue increased by 50% to £27.0m (2018: £18.0m).

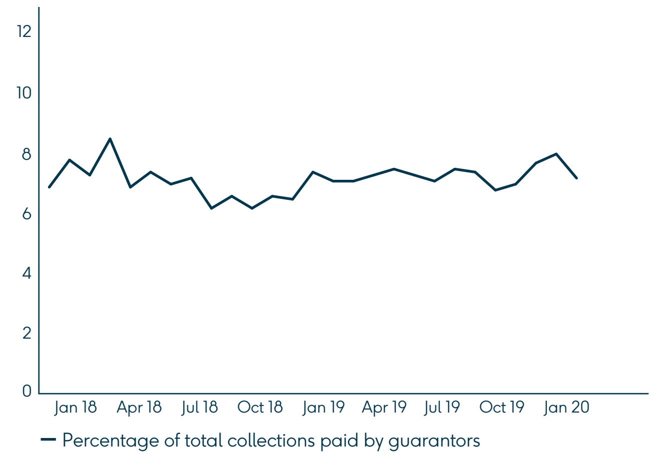
During 2019 we increased the number of staff significantly as we sought to continue to meet the high levels of demand for our products. Whilst the consolidation of all of our operations onto our dedicated site in Trowbridge in October resulted in the departure of a number of staff from our office in Bourne End, we ended 2019 with a total of 141 employees, an increase of 26 over the prior year (2018: 115). As well as causing some operational disruption, the collections performance was also impacted, leading to an increase in the rate of impairment to 26.8% of revenue (2018 restated: 20.5%) and this remains a key area of focus for management. The increased number of staff versus the prior year contributed to higher administration costs that rose to £12.9m (2018: £10.0m). The net result was that while normalised operating profit increased by 17% to £8.8m (2018 restated: £7.5m), the normalised operating profit margin was down on the previous year.

Finance costs increased to £7.3m (2018: £5.8m) as a result of the underlying loan book growth. The net result was that normalised profit before tax was £1.4m (2018 restated: £1.7m). Restructuring and redundancy costs associated with the consolidation of all the division's operations in Trowbridge meant that there was an exceptional item of £0.7m (2018: £nil) which, together with a much reduced fair value adjustment to revenue of £2.9m (2018: £3.7m), meant that the reported loss before tax was £2.2m (2018 restated: loss before tax of £2.0m).

7.2%

of the value of all payments received were made by guarantors in 2019

Percentage of total payments made by guarantors remains low



Key Performance Indicators

The relatively strong growth at the division's TrustTwo brand impacted revenue yield which together with the greater than expected increase in impairment meant that the risk adjusted margin reduced to 23.2% (2018 restated: 25.8%). The high rate of loan book growth, coupled with the disruption alluded to above meant that return on assets was lower than expected at 9.3% (2018: 11.2%).

Year ended 31 December Key Performance Indicators[1]	2019 Normalised	2018 Normalised Restated
Period-end customer numbers (000)	**32.6**	25.1
Period-end loan book (£m)	**105.5**	82.7
Average loan book (£m)	**94.1**	67.0
Revenue yield (%)	**31.7**	32.5
Risk adjusted margin (%)	**23.2**	25.8
Impairment/revenue (%)	**26.8**	20.5
Impairment/average loan book (%)	**8.5**	6.6
Cost:income ratio (%)	**43.2**	45.9
Return on assets (%)	**9.3**	11.2

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

COVID-19 actions and plans for 2020

As for branch-based lending, our immediate priority in 2020 has been to mitigate, as far as possible, the impact of COVID-19 on staff and customers whilst also safeguarding the future potential of the business. As the scale and depth of any future impact remains uncertain, we have withdrawn all previous guidance and our longer-term plans remain under review.

We shifted to a home-working model during late March 2020 with staff being able to access all of their office-based systems remotely including telephony, so that all customer-related calls are recorded and management oversight remains robust. Given the challenges in assessing the creditworthiness of applicants and guarantors in the current environment, lending volumes reduced significantly in April although we were able to keep credit flowing for existing customers and key workers, albeit with a limit on new loans of up to £2,000. Having revised our scorecards and put in place appropriate social distancing protocols, we now have a balance of staff working from home as well as a limited number operating out of our offices in Trowbridge. We are receiving a high number of leads from financial brokers and have increased the limit on new loans up to a maximum of £10,000, although in the current environment it is clear that applicants are finding it much more challenging to find a suitable guarantor. As a result, at the start of June 2020 the net loan book had reduced by around 4% since the year end although we are starting to increase lending volume and this is building gradually, albeit from a low base.

Basic collections (before settlements) in April and May 2020 averaged approximately 83% of that achieved in January and February 2020 and the absolute amount was ahead of the collections made during the same period in 2019. The Guarantor Loans Division has a higher percentage of COVID-affected customers than the other two businesses which is leading to higher levels of delinquency. As we are presently unable to initiate recovery action against such customers or their guarantors, we cannot say how long this situation may persist for. We have no reason to believe COVID affected customers will not ultimately pay either directly or via guarantors in a similar manner to our other businesses. The proportion of payments being paid by guarantors in April and May 2020 was broadly unchanged from that prior to the restrictions coming into force, reflecting the fact that no guarantors of borrowers in difficulty due to COVID-19 have been contacted for payment, in line with FCA guidance and this has led to a higher level of delinquency. Given the strong loan book growth prior to the restrictions and the uncertainties surrounding the outcome of the pandemic, it is possible that the level of loan loss provisions could increase in 2020. As with branch-based lending, given the significant reduction in lending, the business generated positive cash flow in April and May 2020.

We continue to believe that a guarantor loan is a highly attractive mid-cost product for a borrower with an impaired or thin credit file. By enabling them to borrow at a much lower cost than if they were to borrow on their own, it also allows them to rebuild their credit score over time so that if they remain on-track, they can then access mainstream credit markets.

Home credit

Our home credit business continued to evolve in 2019 with further improvements in our technology and systems contributing to a marked increase in profitability.

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]

Our 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 Based on data from L.E.K. Consulting, December 2018 and Company estimates.
3 FCA: Sector Views 2017.

Year ended 31 December	2019 Normalised[1] £000	2019 Fair value adjustments and exceptional items £000	2019 Reported £000
Revenue	**60,835**	**–**	**60,835**
Impairments	(16,435)	–	(16,435)
Revenue less impairments	**44,400**	**–**	**44,400**
Administration expenses	(35,298)	–	(35,298)
Operating profit	**9,102**	**–**	**9,102**
Exceptional items	–	(221)	(221)
Profit before interest and tax	9,102	(221)	8,881
Finance cost	(2,116)	–	(2,116)
Profit before tax	**6,986**	**(221)**	**6,765**
Taxation	(1,474)	42	(1,432)
Profit after tax	**5,512**	**(179)**	**5,333**

Year ended 31 December	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
Administration 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

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

“Communication is a key factor and I like the fact that you can speak up if something isn’t right.”

Mark Wood
Business Manager, Loans at Home

Clear communications

Mark joined in July 2017 having worked in home credit for over 20 years at a major competitor. Mark feels that our culture and approach is very different from other firms:

“Management allows you to get on with your job – targets are challenging but there is a real desire to see them achieved in the right way. At the heart of this is the fact that they trust the relationship between the customer, the agent and business manager.

Expectations are high but the business has really good management information that means you focus on the right things and at the right time to deliver great outcomes for customers. Communication is a key factor and I like the fact that you can speak up if something isn’t right – senior management are really approachable and they listen to what you have to say. Not only that, they make things happen and the business is continuing to deliver enhancements that allow me to do my job more effectively.”

> Our agents and business managers really look out for their customers."

Davie Thompson
CEO, Loans at Home

Whilst the market remains mature, our focus in 2019 was to continue to rebalance the overall loan book with a reduction in the proportion of loans issued with a term of more than one year, ensuring a gradual rebalancing towards shorter-term loans. At the same time, we also sought to continue to attract quality customers. Taken together, the net result was that the net loan book declined by 3% to £39.9m (2018: £41.0m) versus our previous medium-term target of between minus 5% and plus 5% growth. However, our focus on quality customers together with further improvements in operational oversight helped to reduce the rate of impairment further in 2019.

Whilst we have continued to attract a modest flow of experienced agents and managers from competitors, the total number of agencies at the year-end was flat at 896 (2018: 897). Having reorganised the management and organisation structure in January 2019, the new structure is much better suited to the scale and growth profile of the business that we now expect and reflects the significant investment made in technology and associated infrastructure.

Whilst the agent to business manager ratio has been maintained at 6:1, other operational efficiencies and lower impairment have helped to increase the overall return on assets to 25.1% (2018: 17.7%) – see glossary on alternative performance measures in the Appendix.

2019 results

The reduction in net loan book coupled with a slightly lower yield meant that normalised and reported revenue reduced by 7% to £60.8m (2018: £65.2m).

The absolute level of impairment reduced to £16.4m (2018: £21.2m) due to the reduction and shortening of the loan book, our focus on quality customers and thanks to our proven lending and collections processes. As a result, the rate of impairment fell from 32.6% to 27.0% of normalised revenue which is well below our previously announced medium-term target of 30%-33%. Our previous investments in technology and associated infrastructure have helped to facilitate a meaningful reduction in administration costs and the total number of staff fell from 331 to 313 having rationalised our infrastructure to better match the current scale and projected growth of our business. The result was that normalised and reported operating profit increased by 36% to £9.1m (2018: £6.7m).

Whilst administration costs fell versus the prior year, restructuring and associated redundancy costs of £0.2m (2018: £nil) are included as an exceptional item. The combination of a smaller loan book and a strong increase in operating profit helped increase cash flow generation and as a result finance costs fell to £2.1m (2018: £2.5m). The net result was that normalised profit before tax increased by 64% to £7.0m (2018: £4.3m).

Key Performance Indicators

Whilst the focus on quality customers and the transition to a shorter loan book impacted revenue yield that fell slightly to 167.5% (2018: 171.5%), the benefit to impairment was even more significant. Careful management of our cost base meant that operating profit margins increased to 15.0% (2018: 10.3%) and the return on asset increased from 17.7% to 25.1%.

Year ended 31 December Key Performance Indicators[1]	2019 Normalised	2018 Normalised
Period-end self-employed agencies	**896**	897
Period-end number of offices	**64**	66
Period-end customer numbers (000)	**92.4**	93.8
Period-end loan book (£m)	**39.9**	41.0
Average loan book (£m)	**36.3**	38.0
Revenue yield (%)	**167.5**	171.5
Risk adjusted margin (%)	**122.2**	115.6
Impairments/revenue (%)	**27.0**	32.6
Impairment/average loan book (%)	**45.2**	55.9
Cost to income ratio (%)	**58.0**	57.1
Return on asset (%)	**25.1**	17.7

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

COVID-19 actions and plans for 2020

As for the other two divisions, the immediate focus following the outbreak of COVID-19 has been to protect the health and safety of our staff, self-employed agents and customers whilst safeguarding the future potential of the business. As the scale and depth of any future impact remains uncertain, we have withdrawn all previous guidance and our longer-term plans remain under review.

25.1%

Return on asset in 2019 (2018: 17.7%)

Following the change in government advice regarding social distancing, we advised all self-employed agents to stop visiting customers' homes in late March 2020 and as a result, lending volumes reduced significantly. This in turn has meant that the net loan book at the start of June 2020 had reduced by around 32% since the year-end. We launched a remote lending solution for agents in late April 2020 so that they can continue to serve their existing customers with whom they have an established relationship and, subject to our usual affordability checks, can issue credit directly into the customer's bank account. Having piloted the product successfully, this has now been rolled out across the network although as an additional precaution given the current uncertainty, we initially limited new loans issued to a maximum of £500 and with a maximum term of 33 weeks.

Collections were also impacted by the steps taken above but we have seen a significant increase in the use of our remote collections channels with the result that basic collections performance (before settlements) in April and May 2020 held up well averaging approximately 76% of pre-crisis levels. Of those customers that have had difficulty paying because of COVID-19, we estimate that approximately half have been unable to pay because they can only pay in cash and we expect that a significant proportion of such customers will catch up on their payments as soon as the agent returns to make collections physically.

Home credit remains an important source of credit for some of the UK's poorest households and we are determined to continue to support our customers through this very challenging time. Whilst the strong economic backdrop in recent years and the expansion of credit generally has seen many traditional home credit customers either reduce their levels of borrowing or migrate to alternative sources of credit, we believe that as was the case during the recessions of 1990-91 and again during the global financial crisis, the tightening of credit generally may prompt a number of former customers to return to home credit and we are focused on ensuring that as a business we are well-placed to respond appropriately, if and when that occurs.

Central costs and exceptional items

Year ended 31 December	2019 Normalised[1] £000	2019 Amortisation of acquired intangibles and exceptional items £000	2019 Reported £000
Revenue	**–**	**–**	**–**
Administration expenses	(5,358)	(7,226)	(12,584)
Operating loss	**(5,358)**	**(7,226)**	**(12,584)**
Exceptional items	–	(79,293)	(79,293)
Loss before interest and tax	**(5,358)**	**(86,519)**	**(91,877)**
Finance cost	(649)	–	(649)
Loss before tax	**(6,007)**	**(86,519)**	**(92,526)**
Taxation	1,141	2,138	3,279
Loss after tax	**(4,866)**	**(84,381)**	**(89,247)**

Year ended 31 December	2018 Normalised[1] £000	2018 Amortisation of acquired intangibles and exceptional items £000	2018 Reported £000
Revenue	–	–	–
Administration 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)

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

Central costs and exceptional items

Normalised administrative expenses were broadly unchanged at £5.4m (2018: £5.4m). The amortisation of acquired intangible assets includes the write-off of the remaining George Banco intangible assets totalling £7.2m (2018: £8.7m).

In the year ended 31 December 2019 the Group incurred exceptional costs totalling £80.6m (including VAT) (2018: £nil). The key items within this total were: £12.8m of advisory fees and other costs associated with the offer to acquire Provident Financial plc on the terms set out in an offer document published on 9 March 2019, as well as the related proposal to demerge Loans at Home; a £44.8m impairment loss on the Everyday Loans goodwill asset; a £8.6m impairment loss on the George Banco goodwill; a £12.5m impairment loss on the Loans at Home goodwill asset; and £1.9m (2018: £nil) of restructuring and redundancy costs that took place during the year. The impairment of goodwill in each business division is a non-cash item and was driven primarily by the reduction in stock market valuations and multiples across the non-standard finance sector. Further details are set out in note 15 to the financial statements.

Prior year adjustment

The Group transitioned to IFRS 9 on 1 January 2018. IFRS 9 introduced a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information and replaced 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. Through the review of the 2019 financial statements by the Audit Committee and the new Group CFO, it was determined that an error in the information used at the time of calculation had resulted in an underestimation of the level of loan loss provision required at 1 January 2018 by £3.2m and by a further £0.8m as at 31 December 2018. A prior year adjustment to amounts receivable from customers as at 31 December 2018 has therefore been made by increasing the loan loss provision of both branch-based lending and guarantor loans by £3.6m and £0.4m respectively. The effect of this adjustment is set out in note 1 to the financial statements.

IFRS 16

From 1 January 2019 the Group adopted a new accounting standard: IFRS 16 Leases, replacing the previous standard, IAS 17 Leases. With a sizeable portfolio of leases in both branch-based lending and home credit, the Group has incurred an additional interest charge of £1.1m in the year to 31 December 2019, partly offset by a reduction of £0.6m in administrative expenses. As at 1 January 2019, the impact of the adoption of IFRS 16 was a decrease in net assets of £0.3m. Please refer to note 3 in the financial statements for further details.

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, changes to the interpretation of 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, the risk of human error, taxation, health and safety as well as disaster recovery and business continuity risks;
  - **reputational** – a failure to manage one or more of the Group's principal risks 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;

- **COVID-19** – A large pandemic such as COVID-19, coupled with restrictions on face-to-face contact by HM Government, may cause significant disruption to the Group's operations and severely impact the supply and level of demand for the Group's products. As a result, any sustained period where such measures are in place could result in the Group suffering significant financial loss; and

- **Liquidity** – the Group increased its total debt facilities in March 2020 with the addition of a new £200m securitisation facility and while no repayments are due on any of its facilities until August 2022, 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. While the Group has £60.3m in cash and no need to draw down further on the new facility to remain viable under the Group's base case, the impact of COVID-19 on the facility's financial covenants means that any further draw down would not be possible without a suitable covenant waiver. Also, if the FCA requirement to provide borrowers affected by COVID-19 with an emergency payment freeze and/or poor operational or financial performance results in a significant increase in provisions and lower net book values, there is a risk that the loan-to-value covenants for the Group's debt facilities may come under pressure leading to a risk that the Group will be unable to access its facilities.

On behalf of the Board of Directors

Jono Gillespie
Chief Financial Officer
25 June 2020

Long-term relationships underpin all areas of our business

Our approach to stakeholder management

Throughout this and previous reports, we have described how our business culture and overall approach to stakeholder management underpin the achievement of our long-term objectives.

This approach has now been formalised as part of the revised Corporate Governance Code (the 'Code') as well as in the Companies (Miscellaneous Reporting) Regulations 2018 ('MRR') so that there is now a requirement for certain companies to include a separately identifiable so-called 'Section 172 (1) Statement' in the Strategic Report explaining, inter alia, how directors have had regard to the matters set out in Section 172 (1)(a)-(f).

Section 172 (1) of the Companies Act 2006

Duty to promote the success of the company
A director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

Discharging our responsibilities under Section 172

To discharge our responsibilities under these requirements, we have set out on the following pages a summary of each of our key stakeholder groups, why they are important to us, how we have engaged with them in 2019 and the key topics that have been addressed. We have also provided some examples of where decisions have been taken or where future actions were proposed as a result of our engagement.

The Board considers that this section of the Annual Report (pages 46 to 59) constitutes its disclosure against the requirements of Section 172(1) of the Companies Act 2006.

(a) the likely consequences of any decision in the long term;

What this means:
The Board is not just thinking about short-term needs and also considers carefully the likely impact of its decisions on the Group's long-term prospects and value.

(b) the interests of the company's employees;

What this means:
Our staff and self-employed agents act as the interface with our customers and so are key to long-term success.

(c) the need to foster the company's business relationships with suppliers, customers and others;

What this means:
The Group draws upon the services and skills of a variety of different suppliers and other stakeholders to provide a quality service to its customers. Building and sustaining these relationships is an important factor for the Group's long-term success.

(d) the impact of the company's operations on the community and the environment;

What this means:
If the Company fails to respect how it affects communities, it may face significant challenges to its business from customers, regulators and government.

(e) the desirability of the company maintaining a reputation for high standards of business conduct; and

What this means:
A company's reputation is hard won and easily lost – maintaining high standards through a strong and positive culture as well as good governance is vital for building and sustaining long-term value.

(f) the need to act fairly as between members of the company.

What this means:
The interests of all members are treated fairly.

Providers of funding

Why they matter

Without sufficient capital and funding the Company could not operate its business model or execute its stated business strategy. Providers of both debt and equity are key to the long-term success of the Company.

How we engage

The Board aims to build and maintain quality relationships with key sources of funding through a programme of regular engagement thereby ensuring that, should additional funding be required at some point in the future, such providers will be well-versed in the latest Company developments and better placed to provide funds in a timely manner than if they were looking at the Group for the first time. The Directors deploy a variety of different channels including regular public disclosures such as the 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 to help funding providers, whether debt or equity, remain informed about the Group's latest performance, strategy and prospects.

In addition, throughout 2019, the Group Chief Executive, Chief Financial Officer, and Director of Investor Relations and Communications met with equity and debt investors on request as well as during organised roadshows supported by the Company's advisers. There were over 80 such meetings and interactions during 2019 and the Group also attended and presented at a number of conferences. The Chairman and other Non-Executive Directors also met with investors during 2019 without the executive management present. The Group is currently covered by six sell-side research analyst teams and aims to maintain strong relationships with each of them as well as a number of other analysts covering the non-standard finance sector.

The Group's corporate website is a major source of information for analysts, investors and other providers of funding: **www.nsfgroupplc.com**

Key topics

The financial and operational performance of the Group and each of its divisions remain the primary focus for this stakeholder group. Other key topics include major strategic developments and issues such as the firm offer to acquire Provident Financial plc, changes to the regulatory environment, corporate governance, risk management and capital structure.

Outcomes and actions

The Board receives a regular update at each Board meeting regarding key market developments over the previous month, including any feedback received from both equity investors as well as lenders to the Group. The Board also receives copies of any third-party research that is published together with an update to the consensus of analyst forecasts. Taking these views into account is seen by the Board as an essential part of the business management process at NSF.

Customers

Why they matter

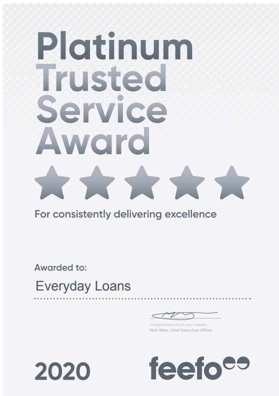
Our customers lie at the heart of our business model (see pages 10 to 11) and without them we have no business. Should we fail to deliver great service or not treat our customers fairly then we will struggle to meet our long-term financial and strategic objectives.

How we engage

Monitoring and influencing the quality of our customers' experience is key. Given the high proportion of our overall customer base that we deal with face-to-face (accepting that COVID-19 has required that we adapt our approach in 2020), we are fortunate as we can often obtain immediate feedback on how we are performing and how we might improve. Whilst important, we don't just rely on this single feedback loop but also track other independently sourced intelligence via customer surveys as well as online recommendation engines such as Trustpilot and Feefo[1]. We also work hard to ensure that if something goes wrong, our complaint handling processes deliver fair and appropriate outcomes that stand up to scrutiny and challenge. Numbers of complaints and root cause analysis are datapoints that we track and monitor closely.

Feefo platinum award

Everyday Loans once again received platinum status on Feefo[1] based on customer experience ratings over the past year.



1 www.feefo.com and www.uk.trustpilot.com are both third-party customer review sites.

Key topics

We are always looking at ways to improve our service to customers and so seek feedback on all areas of the customer journey including product design, payment mechanisms, our lending, collecting and complaint handling processes.

Outcomes and actions

We aim to capture these learnings and once understood and properly tested, we then seek to embed any consequent changes into our policies and procedures; our training programmes; our organisation structure; as well as our incentive arrangements. We also monitor and investigate thoroughly any complaints we receive so that we can learn from our mistakes and improve the quality of our service (see 'Our strategy and KPIs' on page 23). Each of these and other measures are captured within a bespoke 'good customer outcomes dashboard' that is being developed internally and is reviewed regularly by the Group's Risk Committee (see the Risk Committee Report on page 93).

If we really care about our customers, why do we charge such high APRs?

In the context of customer engagement and the delivery of good customer outcomes, this is a question that we are often asked. To answer it properly, 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. Whilst additional credit risk is one factor, for our highest APR products (in home credit), it is also because loans tend to be for short periods of less than one year and because they tend to be for small amounts.

Another factor is that the costs of delivering and collecting that loan, mainly face-to-face, are relatively high – in other words, while our business model (see pages 10 to 11) 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 an expensive model to operate.

The chart opposite illustrates what happens to NSF Group revenue, based upon the 2019 normalised results. Whilst each of our three businesses has different dynamics, we have sought to provide an NSF overview as follows:

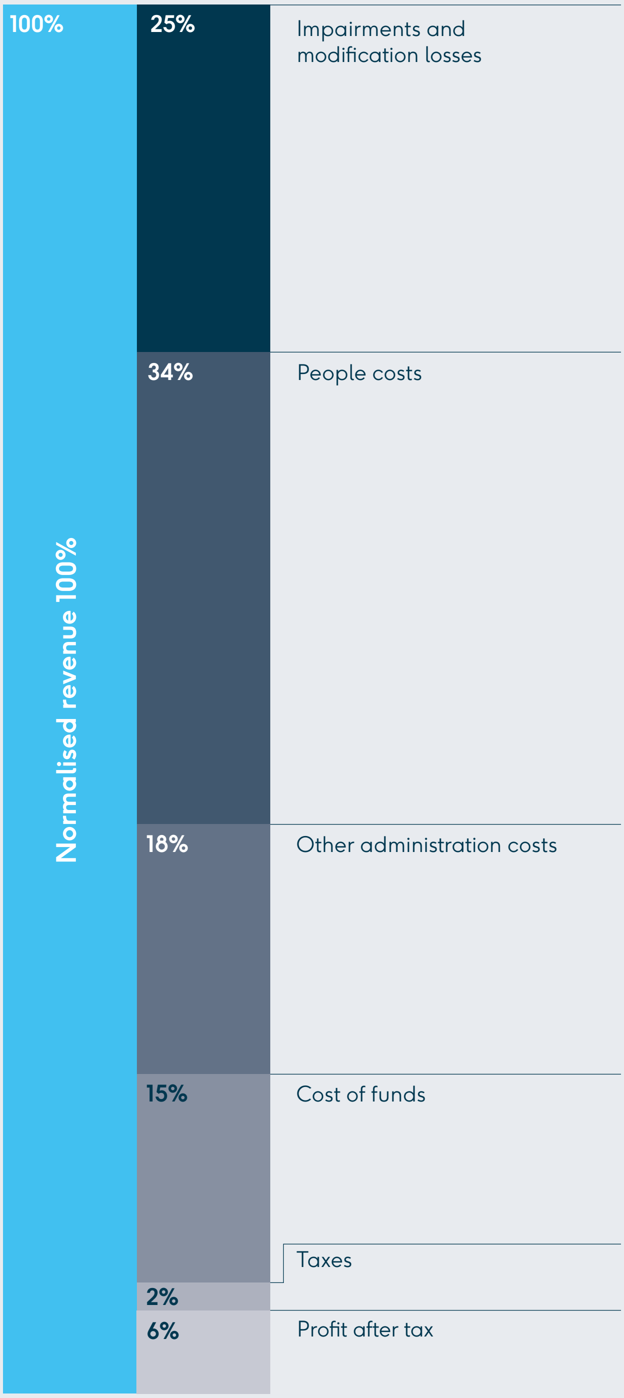
Impairments and modification loss
Lending to customers with low or impaired credit ratings is a risky business and a significant proportion of revenue is lost through the impairment of loans that don't get repaid. There is also a loss of revenue when loans are rescheduled or modified in order to help any customers that may be experiencing financial difficulty. Higher risk customers tend to result in higher impairments and so when lending to such customers, lenders need 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 administration 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, but only 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 or other distributions and by reinvesting funds to deliver future growth.

NSF normalised Group revenue



Employees and self-employed agents

Why they matter

As a relationship lender, our workforce (including self-employed agents) is a key enabler in the execution of our business strategy and in the deployment of our business model.

How we engage

As well as providing a comprehensive induction process, all new joiners also take part in extensive and tailored training modules so that they can make a contribution as soon as possible after they join.

Even after they have been in their roles for a while, we aim to continue to develop the talents of all of our staff and self-employed agents through a programme of training modules. Online training provides us with a clear audit trail for each participant, giving us the confirmation that our people have the skills they need to perform their roles effectively. While regular intranet communications and engagement surveys provide updates on a raft of different measures that are tracked over time, it is through regular site visits as well as management conferences and workforce forums that staff and self-employed agents have the opportunity to meet senior members of the leadership team, including members of the NSF Board, and can air any concerns or issues in person. For further details regarding our workforce engagement see pages 74 to 77.

Everyday Loans hosted a series of culture workshops across the UK during 2019.

Key topics

While our staff and self-employed agents appear to be generally happy in their work (see results from our engagement surveys on page 23), as for any business, there is always room for improvement. Key topics raised include work/life balance, opportunities for career progression, remuneration and benefits, management processes as well as ideas to improve working practices and profitability.

As a Group, we are focused on sustaining a positive business culture and continue to promote our core values and behaviours through a variety of different channels including the Group's intranet, regular training, workforce forums and performance reviews.

Outcomes and actions

With an increased awareness about the issues surrounding mental health, during 2019 we started a process of training our staff on this important topic as well as other aspects of wellbeing at work. Everyday Loans now has an Employee Assistance Programme ('EAP') that includes access to online and telephone support including counselling, legal advice, health, money and family advice for those that may need it. Separately, we have started to introduce a number of 'mental health first aiders' across the Group so that as well as having access to external sources of support, we also have staff on the ground to offer face-to-face help. By demonstrating that we care deeply about them, we aim to instil in all of our people a similar sense of responsibility for all of the Group's 200,000 customers.

Dying to work

John van Kuffeler, Group Chief Executive signing the Dying to Work charter in 2018.

Having signed the TUC's 'Dying to Work' Charter in 2018, we had to put our commitment into practice in 2019 as one of our employees became terminally ill and whilst they had offered to step down from their role after a period away from the office, we continued to pay them in full. Following their tragic death, we were in regular contact with the family of the deceased and ensured that the death in service benefits were paid out in full.

Seeing our commitments in action helps to build trust and confidence in the workplace – key foundations for an engaged and productive workforce. We are also committed to rewarding our staff properly and ensuring we retain a good gender balance.

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:

April 2019	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	10	39
Total number of employees	**477**	**410**	**887**

April 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	42
Total number of employees	473	390	863

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 2019 (hourly pay) and bonus paid in the 12 months to 5 April 2019. The figures for 2019 are as follows (the comparative figures for 2018 are also included for reference):

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

2019[2]	Mean	Median
Hourly pay gap	**19.19%**	**8.94%**
Bonus pay gap	**28.20%**	**17.44%**

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

1 A positive percentage figure indicates that female employees typically 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 2019 and 2018 (hourly pay) and bonus paid in the 12 months to 5 April 2019 and 2018.

Proportion of males and females receiving a bonus payment

	Male	Female
2019	**87.2%**	**78.5%**
2018	78.5%	66.9%

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 76% of senior roles were held by men (2018: 71%) and 24% were held by women (2018: 29%) as at the snapshot date).

As can be seen in the quartile graphs below, 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.

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?

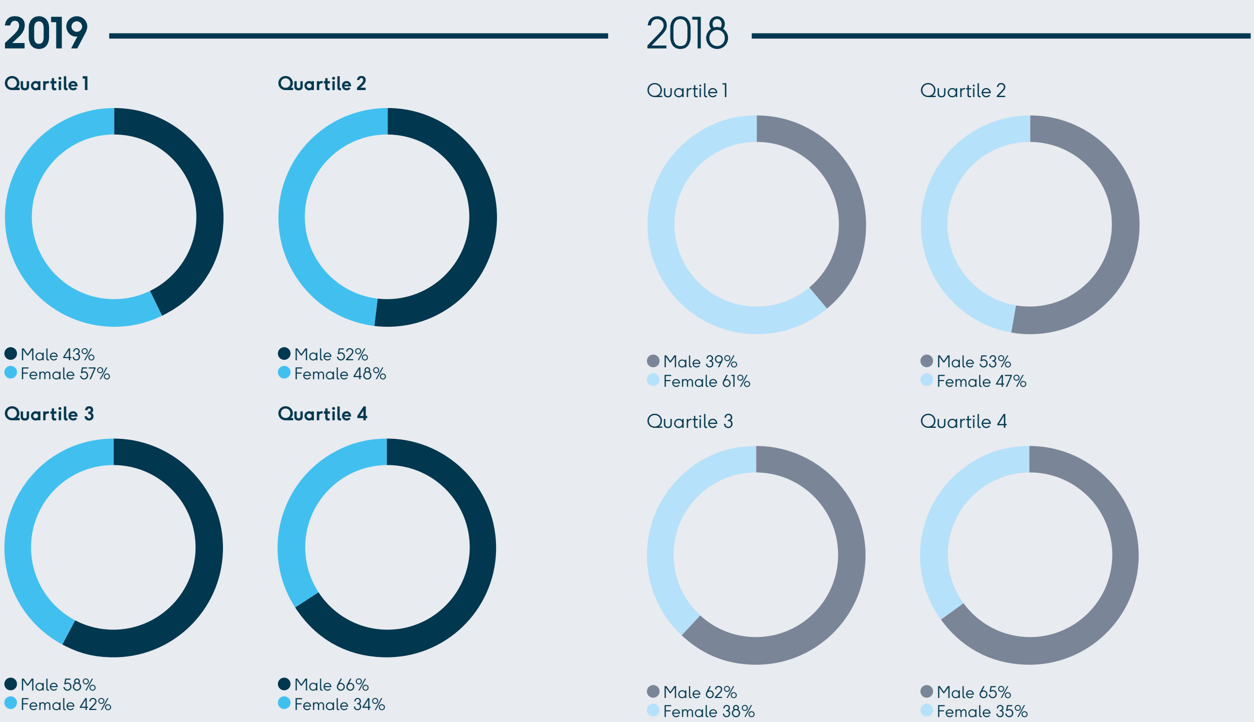
The Office for National Statistics' 2019 figures[1] put the mean salary gap at 33.3% for financial institution managers and directors. Whilst pleased that we appear to have a smaller gap than the industry more generally, we are committed to reducing this further through a series of actions as follows:

- 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.

1 ONS: Gender Pay Gap in the UK: 2019, 29 October 2019.

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



Regulators

Why they matter

As a leading operator in the sector, maintaining a positive relationship with regulators is key. Through our engagement we aim to ensure they remain well-informed about market dynamics, as well as how any existing or proposed regulatory changes may impact consumers and the workings of the non-standard finance market more generally.

How we engage

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 and other regulatory bodies, including HM Treasury, fully informed regarding the Group's broader strategic plans.

FCA FINANCIAL CONDUCT AUTHORITY

The Group had a number of engagements with the FCA during 2019, covering a broad variety of topics including strategic and sector-wide developments, as well as more operational matters as part of the regulator's supervisory role.

Key topics

We had several interactions with the FCA, as well as a number of other regulators, including the Prudential Regulation Authority ('PRA'), both before launching our firm offer to acquire Provident Financial plc and during the offer itself. A variety of issues were raised and discussed with them including our detailed plans for the enlarged Group and how they would not result in a deterioration in quality of service for customers. Outside of the offer process, we also responded to a number of data requests from the FCA that continues to track the performance and dynamics of a number of segments of the non-standard finance market.

Outcomes and actions

Following the completion of a detailed and multi-firm review, along with a number of other guarantor lending companies, the Group received a letter from the FCA in November 2019 identifying a series of recommendations and suggestions of ways in which the quality of information provided to guarantors at the point of lending might be improved. Drawing upon some draft guidance that is being prepared by industry associations, the Group is developing a series of steps to implement the FCA's recommendations.

In April 2020, the Group also contributed to the FCA's consultation on forbearance measures for borrowers affected by COVID-19, both directly and through industry associations.

Partners and suppliers

Why they matter

While there are some instances where we can leverage the scale of the Group to obtain better terms, the different business models and customer demographics of each of our divisions means that, for most suppliers, the relationship is managed at a divisional rather than Group level. As a result, whilst any failure in supply would be unlikely to have a material effect on the Group as a whole, culturally we are focused on ensuring we are professional at all times and want to establish a reputation as being a reliable customer with whom other firms can and want to do business.

How we engage

When taking on a new supplier we conduct detailed due diligence on them to ensure that we understand not only the quality of their products and services but also their policies, procedures and working practices, making sure that they are consistent with our own values and business approach. We also make sure that our suppliers comply with the Modern Slavery Act 2015 and conduct a credit check to ensure they remain financially robust. As well as keeping suppliers informed of our business performance through public disclosures, each division seeks to maintain strong relationships through face-to-face meetings and regular contact by phone. For a limited number of services such as insurance, we can sometimes arrange supply on a Group-wide basis. Other key suppliers include financial brokers, credit reference agencies and providers of data storage.

14

The Group works with 14 direct introducers (financial brokers and lead generators) and all the major price comparison websites for loans in order to attract new customers.

Key topics

As well as ensuring that the quality of the services being supplied meets the standards expected, through our engagement we also monitor our payment terms with suppliers closely to ensure we pay them within the constraints of the Prompt Payment Code.

Outcomes and actions

If a supplier falls short of the standards we expect or if there is a risk that continuing our relationship may compromise the Group's reputation or business prospects, then we will look to replace them with a comparable alternative, having already identified a number of these at the time of the original tender.

Communities and charity

Why they matter

Much of our business is conducted face-to-face through extensive national networks and so we recognise the importance of becoming a valued member of the towns and cities where we have a physical presence. With over 940 staff, 890 self-employed agencies and 200,000 customers that we serve through 140 locations across the UK, as a Group we are already deeply embedded within the communities where our employees, customers, suppliers, regulators and other key stakeholders are based.

How we engage

As well as being a stand-out employer and the provider of quality services to our customers, we also aim to put something back into local communities through physical as well as financial contributions.

A Loan Smart community event in Darlington in September 2019 was supported by NSF and Loans at Home staff who were also joined by local MP Jenny Chapman to help raise awareness about the dangers of illegal lending.

£53,220

was donated to various charities in 2019

Key topics

Whilst keen to support local communities and charities, the Group has finite resources and so must try and strike an appropriate balance between allocating available funds and the time of our staff against the delivery of the Group's other corporate objectives. As well as supporting debt-related charities such as Loan Smart, we also ask our staff which other charities they would wish to support at the beginning of each year.

Outcomes and actions

In 2019 the Group donated a total of £53,220 (2018: £84,082) to a range of charities including Prostate Cancer UK and Loan Smart. Separately, the Group once again supported CRXSS PLATFXRM, an urban dance, music and arts festival in Central London encompassing an impressive range of artistic partnerships.
As well as financial donations, our staff also took part in a number of community-based events such as for Loan Smart, a charity dedicated to raising awareness of the dangers of illegal lending.

Environment

Why it matters

Environmental issues are becoming an increasingly important issue for many of our key stakeholders including customers, staff and HM Government.

How we engage

Whilst we are a relatively small company compared with many others, given the nature of our business we do not believe that we have a material impact on the environment. That said, we have grown quickly over the past few years and are keen to minimise any impact that our activities might have. During 2019 it was identified that the Group qualified for the Energy Savings Opportunity Scheme ('ESOS'), established by the Energy Savings Opportunity Scheme Regulations 2014. A Group-wide project commenced to ensure compliance with this energy assessment and energy saving scheme. Having developed and implemented a strategy to comply with the ESOS requirements, a third-party review confirmed this in a report that has since been submitted to the Environment Agency. Under the terms of the scheme a further audit will be conducted in four years' time.

-11%

in kW hours of electricity used in 2019

Key topics

We seek to monitor our utilisation of water and power as well as our production of CO_2.

Outcomes and actions

An update on the estimated volume of CO_2 production from car mileage and volume of water and electricity used during 2019 together with comparisons with 2018 and 2017 across all three business divisions is summarised below.

	kg of CO_2 produced	kW hours of electricity used[1]	m^3 of water used[1]
2019	**315,752**	**1,151,684**	**128,947**
2018	292,500	1,299,408	55,802
2017	345,000	667,253	29,389

1 Where a location is subject to an all inclusive service charge, estimates of total usage have been made based on the average usage of our divisional offices.

The increase in CO_2 emissions was due to an increase in the number of fleet vehicles at Loans at Home from 116 to 140 in 2019 while the modest reduction in electricity usage was due to a lower number of Loans at Home offices that helped to offset the increase in Everyday Loans branches. The increase in water usage reflected the move to a new facility for the Guarantor Loans Division and additional branches. During 2019 we began to also capture gas usage and plan to include this in future annual reports.

"I can honestly say Loans at Home is the best company I have worked for – great people and a great company."

Alison Nicholl
Test manager, IT & Architecture

Shared purpose through teamwork

Having joined Loans at Home in May 2017 from a major competitor where she had worked for almost 11 years in a similar role, Alison has become an invaluable member of the in-house IT & Architecture team.

Introducing new technology to staff and a large network of self-employed agents is never easy; but through hard work, patience and clear communications, Alison has helped to ensure that there have been no major hiccups; building trust and confidence between customer facing staff and agents and the infrastructure and back-office teams. This has been reflected in the number of nominations she received during 2019 in recognition of her work rate, her commitment and for being a real team player.

Throughout 2019 and into 2020 the Board has discharged carefully its responsibility of ensuring that the future prosperity of the business is safeguarded, whilst taking into account the impact of its decisions on key stakeholders and the wider community. Some examples of decisions taken and how the views of stakeholders were considered are summarised below.

Our Section 172 responsibilities in action

1

Offer to acquire Provident Financial plc

The Group's firm offer to acquire Provident, although unsuccessful, was a major strategic initiative in 2019. It required many Board decisions to be taken and had the potential to impact a large number of stakeholders. In assessing the merits of the offer, as well as conducting detailed analysis of the commercial and financial implications, the Board also took into account the impact on other constituencies and, where possible, consulted with the relevant stakeholders before and after the offer was announced.

Customers

The quality of service in home credit was a key area of focus where the Board believed a successful bid would deliver improved outcomes for Provident's customers. Whilst unable to contact Provident customers direct, the Board sought to convey its plans and how they would benefit customers through the many press announcements and public documents issued during the offer.

Shareholders

Despite the strong commercial and financial logic of the offer, the relative scale of NSF and Provident meant that it was important to test that logic with some of Provident's largest shareholders, shareholders that were also significant holders of NSF shares. Having explained our plans in advance (in full compliance with takeover rules), and listened to shareholders' views, we amended certain aspects of the offer before launch. We continued to consult extensively with both Provident and NSF shareholders through a number of face-to face meetings, conference calls and public documents throughout the offer. Owners of over 99% of the NSF shares voted at an extraordinary general meeting held in March 2019 were in favour of the offer.

While owners of 54% of Provident's shares accepted the offer, other conditions could not be met in time and the offer lapsed on 5 June 2019.

Staff and self-employed agents

The Board had a clear vision of how opportunities for staff development and progression would work within the enlarged Group. In particular, the Board believed that the offer would help to mitigate the ongoing loss of jobs within Provident's home credit operation, given the challenges it had been facing.

As the offer involved the separation of Loans at Home from the Group, ensuring that such an exercise would not unduly impact Loans at Home's management, staff and self-employed agents was also considered carefully.

Regulators

Members of the Board consulted with both the FCA as well as the PRA to make them aware of our plans before launch and also to allow them to identify any particular concerns that they might have well in advance. Regular communication continued prior to the offer being made and also following launch. All communications with regulators were reported back to the Board for consideration and input as the dialogue progressed.

Communities

Prior to and during the bid process, the Board considered and engaged with local MPs in the communities served by both Provident and NSF and saw that the enlarged Group would be better placed to continue to support a number of key community initiatives.

2

Board decision to roll out a series of cultural initiatives across the Group

As noted throughout this Annual Report the Board believes that having a strong and positive culture is essential for the Group's long-term success. During 2019 the Board agreed to the investment and roll-out of an extensive programme of culture workshops and training across both the branch-based lending and Guarantor Loans Divisions. While the process for developing and nurturing the Group's culture is very much 'work in progress', the Board is committed to doing so and believes it will help us to make better decisions for our key stakeholders.

Shareholders

A well run business with positive culture tends to enjoy lower staff attrition and good customer experiences. The Board focused on the need to build strong cultures in the Group's newer acquisitions and supported the decision to invest in a tailored culture programme for branch-based lending and guarantor loans. The Board has witnessed a solid operational performance by all three businesses over the course of the year and anecdotal evidence links some of this performance back to this investment.

Employees

The cultural initiative was directly linked back to the Group's employees and consideration of their wellbeing and mental health as much as it was seen as a driver of future financial performance. The Board has supported the programme along with other initiatives such as the introduction of mental health first aiders and receives regular updates on progress.

Customers

Having already embedded training modules on how to identify and manage vulnerable customers, in 2019 the training of a number of mental health first aiders within the Group brought additional benefits. As well as providing support for staff who need it, the increased awareness of these important issues is enhancing the ability of our staff to identify and help customers with similar or related issues.

3

Consolidation of guarantor loans operations into a single location

Having already shifted all collections activity to Trowbridge earlier in the year, the Board approved the consolidation of all guarantor loans-related activity to a single location in Trowbridge in October 2019. This decision was taken after considering the impact on a number of key stakeholders.

Shareholders

The move to a single location is expected to help release a number of operational benefits including greater consistency across key processes, with teams now located together, as well as lower costs by not having to operate from two locations. The Board was therefore able to determine the financial benefits of the project and the positive impact on shareholder returns.

Employees

By moving roles from Buckinghamshire to Wiltshire, a number of staff would be impacted. There was a period of consultation following which a number of staff left the Group and, where possible, a number were retained and filled vacancies in other areas of the business. Improved team cohesion and job satisfaction resulting from the move to a single location was also considered within the project review. The Board received regular monthly updates during the project that is expected to complete during 2020.

Customers

With greater consistency of processes and procedures, the business is much better placed to deliver good customer outcomes on a consistent basis. By being in the same location there has been a marked improvement in communications both between lending and collections teams and by having the senior management team all based in one location.

Corporate Governance
Chairman's introduction

Dear Shareholder,

I am pleased to present our 2019 corporate governance report for the Company which incorporates reports from the Chairs of each of the Nomination & Governance, Audit, Risk and Remuneration Committees on pages 82 to 113.

As summarised in my Chairman's statement on page 6, 2019 included some significant activity for the Group. Throughout the year, the Board has remained committed to applying the highest standards of corporate governance. Despite not having a premium listing on the Main Market of the London Stock Exchange, the Board has sought to comply with the UK Corporate Governance Code and has taken steps to implement the Revised Code published in July 2018 (together, the 'Code')[1]. The Board has also taken note of the Financial Reporting Council's Annual Review of the UK Corporate Governance Code that was published on 1 January 2020.

A revised governance framework was adopted by the Board at the end of 2018 and was rolled out across the Group during 2019 so that a clear process for evaluation of governance, with oversight of the process at Board level is now in place.

The performance of the Board and its various committees are explained in the following sections of this Annual Report. 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 61 below.

The scale and complexity of the Group requires that during the development and execution of its business strategy, the interests of a broad group of stakeholders are taken into account (see pages 46 to 59). Whilst the Board's primary goal is to create long-term value for the Company's shareholders, there is also a clear focus on ensuring that the way we operate our businesses reflects our culture, values and model behaviours that have been shaped to deliver good customer outcomes, underpinning the long-term sustainability of our business.

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

Key developments

Our contested £1.3bn offer for Provident Financial plc was supported by NSF shareholders and required a proportion of the Board's time during the first half of 2019, exposing the Group to additional execution risk. Whilst the offer was ultimately unsuccessful, we are pleased to report that the potential disruption caused by the bid activity did not have a material impact on the business operations of the Group.

In branch-based lending, the loan book grew by 18% and we opened another eight new branches. We also launched a cultural programme called 'The Everyday Way' that seeks to embed a number of core values that together are focused on the delivery of good customer outcomes and are consistent with the values and behaviours of the Group. In guarantor loans, having completed the infrastructure transition to a single loan management platform, the business is finalising the shift to a common front-end thereby ensuring a consistent customer experience across both the George Banco and TrustTwo brands. During the second half of 2019 we accelerated the consolidation of all of our guarantor loans operations onto a single site in Trowbridge, removing duplication and releasing a number of operational efficiencies. None of these developments impeded loan book growth that increased by 28% during the year. In home credit, we continued to evolve our technology infrastructure, streamlining the customer journey wherever possible whilst also embedding new regulatory requirements. The proposal to demerge Loans at Home as part of the offer for Provident highlighted both the quality of our governance processes and the strong position that Loans at Home now has in the home credit market.

With the combined loan book having grown by 18% to £360m in 2019, we took the opportunity in March 2020 to augment our funding arrangements with a new £200m securitisation facility. The new facility was put in place to repay £120m from the more expensive term loan facility with the remainder available for growth at the Group's branch-based and guarantor loans divisions, subject to compliance with financial covenants. As noted in the Group Chief Executive's report, the Audit Committee report and the independent auditor's report, having drawn £15.0m under the facility, the impact of the prior year adjustment and COVID-19 on the loan book has prompted a technical breach of certain covenants, preventing further drawdown on the new facility. However, negotiations with the lender have been positive and temporary relief has been provided whilst a more permanent agreement is reached.

We continued to engage with investors through a comprehensive programme of investor relations including one-on-one meetings, conference calls, results presentations, a governance dinner hosted in October 2019 and an investor day held in January 2020. The Board hopes to build on the feedback received through increased direct shareholder contact.

We continued to develop our corporate governance framework and implemented the Group-wide framework approved at the end of 2018. A number of improvements were made in 2019 including updates to the terms of reference of each committee (for example the Nomination & Governance Committee now considers governance and culture more specifically and the development of the role of Heather McGregor as the Board member with responsibility for engagement with the Group's workforce, as well as enhancements to the Remuneration Policy (see page 94)) that also now reflect the recommendations set out in the revised Corporate Governance Code guidance. Following the external Board evaluation conducted in 2018 by Lintstock, a specialist governance consultancy, the Company followed the 'three-year cycle', with an internal review in 2019, building on the feedback and matters raised by the external review.

2019 saw a number of changes at Board level (see Governance at a glance on page 64), with Miles Cresswell-Turner leaving the Board in October 2019 and Nick Teunon announcing his planned departure from the Board during 2020 (he left the Board on 30 April 2020). Niall Booker was also appointed as Senior Independent Director in November 2019, more clearly defining the role he had been performing to date. I'm pleased that the Board remains a strong cohesive unit moving into 2020, with Jono Gillespie joining the team formally as CFO from 1 April 2020, bringing a wealth of experience gained in the non-standard sector over the past 22 years.

The structure of the Remuneration Committee was enhanced during 2019: underpinning her role as Non-Executive Director with responsibility for employee engagement, Heather McGregor was appointed as Chair of the Remuneration Committee in October 2019, replacing me, although I remain a member of the Committee.

The Group operates a SAYE Share Scheme and 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. The Board acknowledges that the current share price means that membership of the scheme is low and aims to address this in 2020. The Group also established an Employee Benefit Trust during the course of the year to facilitate the satisfaction of obligations under the Group's existing employee-related share incentive schemes. The Board remains focused on enhancing workforce engagement and embedding the strong cultural values of each business through a combination of employee forums that now take place across the Group, improved engagement surveys and the deployment of tailored cultural programmes across all three business divisions.

In 2020, the Board's immediate focus following the COVID-19 outbreak has been to safeguard the health and safety of our customers, our staff and self-employed agents. In developing our plans to do so, we have also sought to mitigate, as far as possible, the impact on our operational and financial performance and to avoid putting our business at risk. As noted above, whilst the impact of the prior year adjustment and COVID-19 on the loan book has meant that there exists material uncertainty over Group's ability to draw down further on the new securitisation facility, the Board is in discussions with its lenders regarding possible future covenant waivers, whilst at the same time evaluating all funding options, which may include the issue of further equity, in order to ensure the Group has a strong and liquid balance sheet. Combined, it is hoped that these actions will unlock access to the facility and help to reduce overall funding costs as well as provide additional finance for future growth.

We also plan to enhance our governance principles and processes through a series of actions including: increased Board oversight of the effectiveness and maturity of governance in each of the Group's core business operations; enhancing the role of Heather McGregor as Non-Executive Director with responsibility for engagement with the workforce; and ensuring that the governance framework now in place is nurtured and maintained whilst continuing to deliver benefits for all of our key stakeholder groups. In a challenging macroeconomic environment, maintaining strong governance and management controls become even more important to protect, build and sustain long-term value and the Board is determined that this remains the case at NSF.

Charles Gregson
Non-Executive Chairman
25 June 2020

NSF is committed to high standards of corporate governance

Statement of compliance with the Code

As mentioned above, whilst the Company 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 implement and comply with the revised Code throughout 2019, wherever possible and appropriate to do so. 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 2019, 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.

Provision 9 – The Company does not comply with provision 9 of the Code, as the Board does not consider Charles Gregson to be independent as a result of him being a holder of Founder Shares. More details on the Founder Shares are set out in the Directors' Remuneration Report on pages 94 to 113. The Board determines that Charles Gregson would be an independent Non-Executive Director in the event he had not held Founder Shares.

Provision 11 – Following the removal of Miles Cresswell-Turner from the Board on 21 October 2019, the Company now complies with provision 11 of the Code. Prior to 21 October 2019, the Company did not comply with provision 11 as not more than half the Board (with the exception of the Chair) were independent Non-Executive Directors.

Provision 12 – The composition of the Board is considered regularly, both formally through the annual Board evaluation process (which in 2018 was conducted by Lintstock, a specialist governance consultancy) and also more regularly through discussion at the Nomination Committee. In light of the continued expansion of the Group's operations, the Board decided to appoint Niall Booker as Senior Independent Director in November 2019. Whilst not required under the rules for a Standard Listed company, we have made clear our desire to align more closely with the July 2018 Corporate Governance Code wherever possible and appropriate to do so. This appointment brought the Company in line with provision 12 of the Code.

Provision 24 – The Company does not meet provision 24 of the Code, due to the Chairman of the Board also being a member of the Audit Committee. As outlined above, the Board considers that the challenge and expertise brought to the Committee by Charles Gregson makes it appropriate for him to remain a member of the Audit Committee.

Provision 32 – The Company did not meet provision 32 of the Code, due to the Chairman of the Board also being a member and Chair of the Remuneration Committee. As explained previously, it is recognised that, in accordance with the Code, Charles Gregson was not independent on appointment (provision 9). On 31 October 2019, Charles Gregson resigned as Chairman of the Committee and Heather McGregor was appointed Chair of the Remuneration Committee, thereby bringing the Company closer to full compliance with provision 32. 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, the Board has deemed it appropriate for Charles Gregson to remain a member of the Remuneration Committee.

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

The Company has implemented the new Code provisions over the course of the year where possible, particularly with regard to remuneration (provisions 36 and 38) and is committed to complying and enhancing compliance with the requirements of the new Code, where appropriate to do so, during 2020.

Meet the Board of Directors

John de Blocq van Kuffeler, 71
Group Chief Executive
Appointed 8 July 2014
Committees D

Skills and experience:
John has extensive sector experience from his time at Provident Financial plc, Marlin Financial and Medens Trust, and brings a wealth of other valuable experience to NSF including: dealing with regulation and regulators, strategy, people development and management, ensuring good customer outcomes, IT development and migration, banking operations, mergers and acquisitions, capital and liquidity, and also managing businesses through recessions and financial crises.

Current external appointments:
Non-Executive Chairman of Paratus AMC Limited.

Background and previous appointments:
Chief Executive and then Chairman of Provident Financial plc (combined total of 23 years). Chairman of Marlin Financial Group Limited, the consumer debt purchasing company (four years). Chairman of Hyperion Insurance Group Limited (five years). Prior to these roles, John had also been Chief Executive of Brown Shipley Holdings PLC which included Medens Trust Limited, a consumer car finance company; Chairman of the credit committee of Brown Shipley Holdings PLC's main banking subsidiary, Brown, Shipley & Co. Limited; Chairman of the J.P. Morgan Fleming Technology Trust PLC and also Chairman of the Finsbury Smaller Quoted Companies Trust PLC.

Jono Gillespie, 47
Group Chief Financial Officer
Appointed 1 April 2020
Committees D

Skills and experience:
Jono is a chartered management accountant, and is a member of the Chartered Institute of Management Accountants. He has held senior financial and technology positions in non-standard financial companies throughout his career, and brings solid financial, commercial, analytical and digital technology experience across a range of non-standard financial channels to the Board.

Current external appointments: None.

Background and previous appointments:
Chief Financial Officer of Loans at Home Ltd. Change and Technology Director of the Consumer Credit Division of Provident Financial plc. Finance Director of the Consumer Credit Division of Provident Financial plc. Various Head of Function roles across finance, performance analysis, business intelligence and strategic marketing at Provident Financial plc.

Niall Booker, 61
Senior Independent Non-Executive Director
Appointed 9 May 2017
Committees A / N / R / RC

Skills and experience:
Niall has spent 35 years in banking providing him with a wide range of experience in both consumer and wholesale products. His sub-prime financial experience includes his time at Household International (part of HSBC). He also has vast experience of mergers and acquisitions having looked to buy banks whilst at HSBC and also from selling cards and auto businesses in the USA. Dealing with regulation and regulators has been an important aspect of Niall's career and he has extensive experience of dealing with shareholders during the sub-prime crisis in the US and during the recapitalisation of the Cooperative Bank in the UK.

Other relevant experience includes capital and liquidity management, people development and management, strategy, banking operations, customer outcomes, and IT migration. Niall has been a member of the College Council at Glenalmond College since 2012 and became Chairman of the Council in August 2017.

Current external appointments:
Chairman Glenalmond College Council.
Chairman of Monument Corporation PLC.

Background and previous appointments:
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. CEO of the Cooperative Bank (three years) having been tasked with rebuilding the capital base, stabilising the operational infrastructure and maintaining the franchise after the problems the bank faced in 2013.

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

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

Charles Gregson, 72
Non-Executive Chairman
Appointed 10 December 2014
Committees A / N / R / RC

Skills and experience:
Charles is a highly experienced executive having previously held a number of senior positions in finance. He has long experience of the sector including extensive experience at Provident Financial plc, Wagon Finance and International Personal Finance plc.

Charles also has extensive experience of the regulatory environment having worked for companies such as ICAP/NEX, CPP and St James's Place Wealth Management, and has more than 20 years' experience as a non-executive director and chairman of both public and private companies.

Current external appointments:
None.

Background and previous appointments:
Non-Executive Chairman of NEX Group plc, formerly ICAP plc (20 years). Non-Executive Chairman of Wagon Finance Group Limited (ten years). Non-Executive Director and Deputy Chairman of Provident Financial plc (nine years). Non-Executive Director of International Personal Finance plc (three years). In addition, Charles has been Chairman of CPP Group plc; Chairman of St James's Place plc; Executive Director of United Business Media plc (formerly MAI plc) (18 years); and Global CEO and Chairman of PR Newswire (three years).

Professor Heather McGregor CBE, 58
Independent Non-Executive Director
Appointed 10 December 2014
Committees A / N / R / RC

Skills and experience:
Heather's expertise is in the financial services sector and also in people, human resources, diversity and inclusion. She has an MBA from the London Business School, a PhD in behavioural finance, and has experience of investment banking.

She brings experience of serving on the plc board of a much larger company that is in a different but highly-regulated sector.

Heather is a founding member of the steering committee of the 30% Club UK, 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, and is the designated Non-Executive Director for workforce engagement.

Current external appointments:
Executive Dean of Edinburgh Business School, the business school of Heriot-Watt University. Non-Executive Chairwoman, Taylor Bennett Limited. Non-Executive Director and member of the Audit Committee, International Game Technology PLC. Heather is also a Member of the Honours Committee for the Economy.

Background and previous appointments:
Heather began her early career in financial communications and investor relations, including as an employee of ABN AMRO's investment banking division. Owned and led Taylor Bennett (17 years), an executive search firm specialising in the communications industry, and while there founded the Taylor Bennett Foundation which provides career access for minority ethnic graduates.

Sarah Day, 48
Company Secretary
Appointed 27 November 2017
Committees D

Skills and experience:
Sarah is a chartered accountant. Having trained and qualified with PwC, she initially gained experience of the non-standard finance sector via the home credit industry through involvement in external audit.

She established the UK Consumer Credit Division Governance and Company Secretarial function at Provident Financial plc, and joined the NSF Group in August 2016 as Financial Controller and Company Secretary of Loans at Home. Sarah brings risk management experience to the role and in addition to being Company Secretary of NSF, oversees risk reporting, governance and the Company secretariat departments across the Group.

Current external appointments:
None.

Background and previous appointments:
Varied roles at Provident Financial plc (17 years) initially working in the International Division (now IPF) with responsibility for the smooth establishment of finance functions 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.

Nick Teunon, 54
Chief Financial Officer (until 31 March 2020)
Appointed 8 August 2014 (stepped down from the Board on 30 April 2020)
Committees D

Skills and experience:
Nick is a chartered accountant. He has held senior financial positions in a number of sectors and has significant experience of working with growing businesses and of corporate transactions and fundraising.

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.

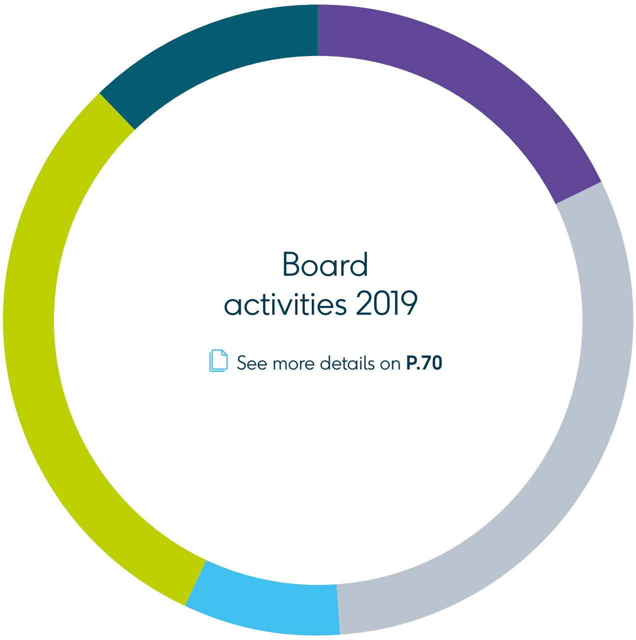
Current external appointments:
None.

Background and previous appointments:
Chief Financial Officer of Marlin Financial Group Limited, the consumer debt purchasing company (just under one year). Chief Financial Officer of FTSE International (five years). Group Finance & Strategy Director of the Press Association (seven years).

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 30 June 2020.

Board skills and experience

	Sector	Operational	Financial	Strategy	Risk	Information technology	People and general management
John de Blocq van Kuffeler	✓	✓	✓	✓	✓	✓	✓
Nick Teunon	✓	✓	✓	✓	✓		✓
Jono Gillespie	✓	✓	✓	✓	✓	✓	✓
Charles Gregson	✓	✓	✓	✓	✓		✓
Heather McGregor	✓	✓	✓	✓	✓		✓
Niall Booker	✓	✓	✓	✓	✓	✓	✓



Strategic	18%
Financial	31%
Internal controls and risk management	8%
Governance and stakeholders	31%
People and culture	12%

Board changes in the year

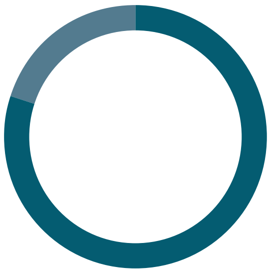
During the course of the year, the Board of Directors has continued to develop. We now have a Senior Independent Director ('SID') role, fulfilled by Niall Booker; and Heather McGregor has expanded her remit as Director with responsibility for employee engagement by taking on the role of Chair of the Remuneration Committee.

In October 2019, the Board undertook a review of the Board composition and Miles Cresswell-Turner left the Board on 21 October 2019.

In November 2019, Nick Teunon, Group CFO, announced his intention to step down from the Board in 2020. Jono Gillespie replaced Nick Teunon as Group CFO on 1 April 2020 and Nick Teunon agreed to remain as an Executive Director until 30 April 2020.

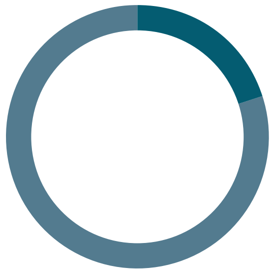
Board composition and diversity (based on those who were Board members for the whole of 2019)

Gender of the Board



Male	4
Female	1

Tenure of Directors



2-3 years	1
3-6 years	4

Board time

Number of Board meetings in 2019	26
Number of Board meeting in 2018	12

Site visits (in addition to Board meetings) (based on those who were Board members for the whole of 2019)

9 Visits to Everyday Loans

7 Visits to Guarantor Loans

4 Visits to Loans at Home

Leadership

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 2019
See pages 62 and 63

Meetings held in 2019:
26 (of which 11 were scheduled meetings and 15 related to the offer for Provident Financial plc).

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 regulations 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.

Board and committee structure

Board of Directors
Certain responsibilities have been delegated to the Board's five committees so as to assist the effective operation of the Board and to ensure the right level of attention and consideration is given to all relevant matters.

Nomination & Governance Committee	Audit Committee	Risk Committee	Remuneration Committee	Disclosure Committee
Key objectives: To ensure that the Board and its committees comprise individuals with the requisite skills, knowledge and experience to ensure they are effective in discharging their responsibilities and that all governance requirements are being adequately addressed by the Board.	*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 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.
The membership of the Nomination & Governance Committee and its report is on page 82.	The membership of the Audit Committee and its report is on page 85.	The membership of the Risk Committee and its report is on page 93.	The membership of the Remuneration Committee and its report is on page 94.	The membership of the Disclosure Committee is the Chief Executive, the Chief Financial Officer and the Company Secretary.

Activities covered during 2019

During 2019 the Board had 11 scheduled meetings to review current trading and operational performance of the business as well as to consider the following five categories of business: (i) strategic; (ii) financial; (iii) internal controls and risk management; (iv) governance and stakeholder management; and (v) people and culture. The Board also held 15 meetings, some of which were called at short notice, to consider, challenge and facilitate the bid for Provident. Attendance at scheduled meetings was 100% for all Board members.

A summary of the topics covered and the frequency that they were discussed during the course of 2019 is set out on page 70.

The composition and role of each committee is detailed in their respective reports that follow (save that there is no report from the Disclosure Committee that met once to review and approve updated dealing and inside information disclosure documentation). The terms of reference for each committee are available from 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. The Chief Risk Officer is a member of the Group's Executive Committee and is also invited to attend all Board meetings providing additional access for members of the Board.

Board and committee meetings

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

The strategy meeting in 2019 was attended by each of the Directors as well as senior management (where appropriate). The agenda for the strategy meeting included:

- a facilitated discussion of the Group's future financial and funding strategy;
- a review of the execution risk of the bid for Provident which was under way at the time;
- a presentation and consideration of the business strategy of each of the Group's three current divisions;
- consideration of the business strategy for each division in the event that the bid for Provident was successful;
- 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 in the event that the bid for Provident was successful.

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.

Board diversity

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

The Future Boards Scheme is 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. Following last year's report, our internal candidate was appointed to the board of one of the Company's subsidiary undertakings and therefore is no longer eligible for the scheme. Over the course of 2019, the Group has appointed two women to Board positions within the Group and two Company Secretaries, both of whom are women, thereby increasing female representation at Board level.

Appointments

The Board has adopted a formal procedure for the appointment of new Directors by appointing a Nomination & Governance 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.

In light of the continued expansion of the Group's operations since IPO, the Board determined that it was appropriate to appoint a SID and in November 2019, Niall Booker was appointed as SID with immediate effect. This appointment now means the Company complies with provision 12 of the Code.

Board performance review

The Chairman met with each of the Directors on a one-to-one basis to appraise their performance during the year. The Non-Executive Directors also met with the Chairman to appraise his performance and the Non-Executive Directors met to evaluate the performance of the Executive Team.

Together, the Board evaluation and the Board performance review have helped to facilitate the planning of ongoing training and development needs of the Board for 2020 as well as supporting the Board's process for succession planning.

Meetings attended/Number of meetings eligible to attend	Board	Nomination & Governance Committee	Audit Committee	Risk Committee	Remuneration Committee	Disclosure Committee
John de Blocq van Kuffeler	26/26					1/1
Nick Teunon	25/26					1/1
Miles Cresswell-Turner (until leaving the Board on 21 October 2019)	17/22					
Charles Gregson	24/26	3/3	13/15	3/4	12/12	
Heather McGregor	24/26	3/3	14/15	4/4	11/12	
Niall Booker	24/26	3/3	15/15	4/4	12/12	

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 the requisite resources to undertake their duties effectively.

Conflicts of interest

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 at the beginning of each meeting.

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 and 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 24 to 27).

The finance department is responsible for preparing the Group financial statements and ensuring that accounting policies are in accordance with International Financial Reporting Standards ('IFRSs'). 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, including focus on areas highlighted in the Audit Committee report (pages 85 to 92) 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 24 to 27, the Audit Committee report on pages 85 to 92 and the Risk Committee report on page 93.

Corporate governance report continued
Division of responsibilities

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, people, culture 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 2019, all of whom have served throughout the financial year, (with the exception of Miles Cresswell-Turner, who served up until his departure from the Board on 21 October 2019). Details of each member of the Board, their respective representation and a description of the Board's activities are summarised in the following table:

<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="4">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 oversees the Group's values and standards and is responsible for nurturing and sustaining a positive corporate culture.

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 as well as the needs and desires of key stakeholders.

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 (SID)
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 in succession planning
• providing a sounding board for the Chairman</td></tr>
<tr><td>In addition, the SID has responsibility for:</td><td>• acting as an intermediary for other Directors as and when necessary
• being available to shareholders and other Non-Executives Directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication
• meeting at least annually with the Non-Executives to review the Chairman's performance and carrying out succession planning for the Chairman's role
• attending sufficient meetings with major shareholders to obtain a balanced understanding of their issues and concerns</td></tr>
<tr><td>Group Chief Executive
John van Kuffeler

Executive Directors
Miles Cresswell-Turner (until 21 October 2019)
Nick Teunon (until 30 April 2020)
Jono Gillespie (from 1 April 2020)</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.

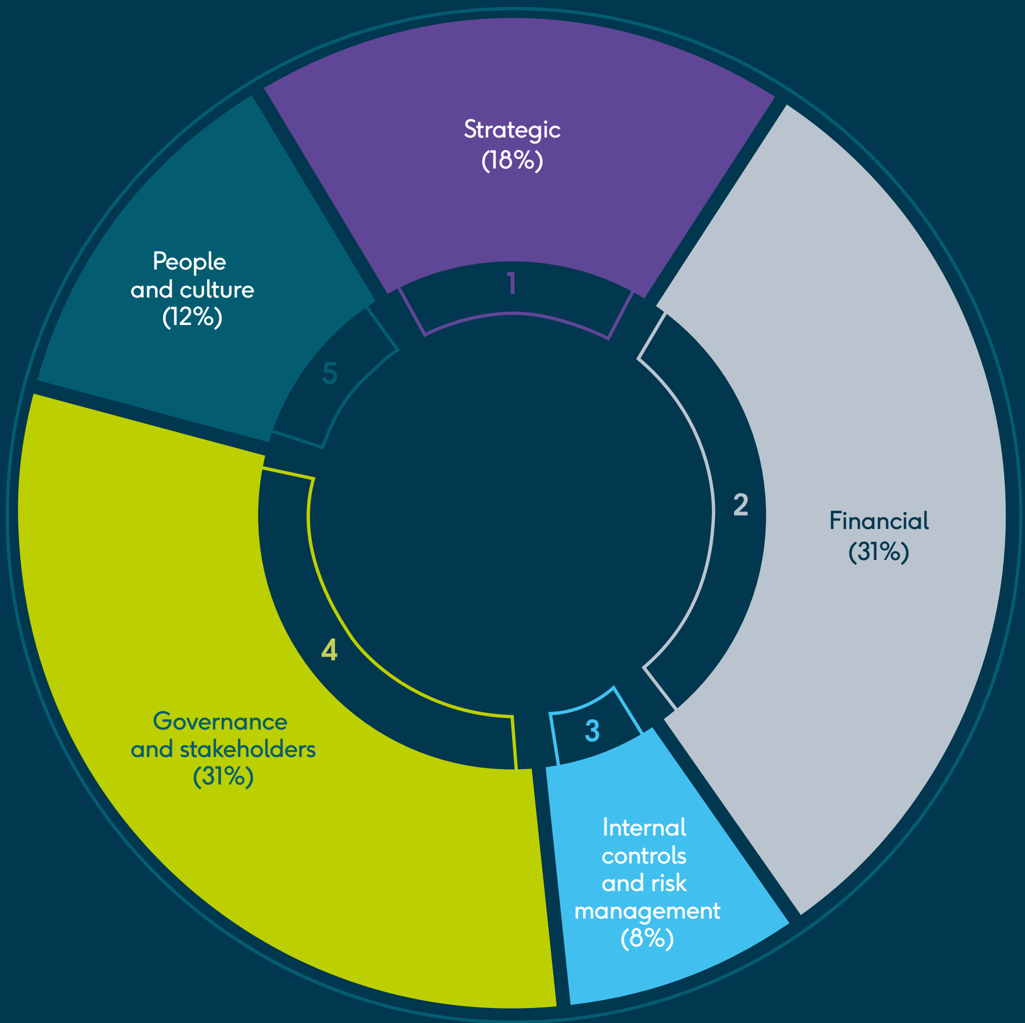
Independence

In accordance with principle 10 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 94 to 113. The Board determines that Charles Gregson would be an independent Non-Executive Director in the event that he did not hold Founder Shares.

Corporate governance report continued

Board activities in 2019



1. Strategic
- Activities leading up to and relating to the firm offer to acquire Provident Financial plc
- Quarterly review of strategic initiatives
- Reorganisation of subsidiary undertakings (e.g. relocation of Guarantor Loans Division to a single location)
- Annual strategic planning conference
- Review of the component parts of the Group in the context of ensuring maximisation of shareholder value
- Consideration of strategic options for the Group

2. Financial
- Review and approval of subsidiary and Group budgets and quarterly forecasts
- Ongoing review of business performance
- Review of funding options and approval of securitisation funding agreement
- Approval of full-year and interim results
- Approval of share capital reduction
- Approval of rectification steps regarding relevant distributions
- Approval of interim and final dividends

3. Internal controls and risk management
- Monitoring and oversight of SMCR project implementation
- Approval of corporate policies
- Briefings regarding mitigation activity for regulatory risk
- Annual review of data protection officer report, health and safety report and whistleblowing officer report

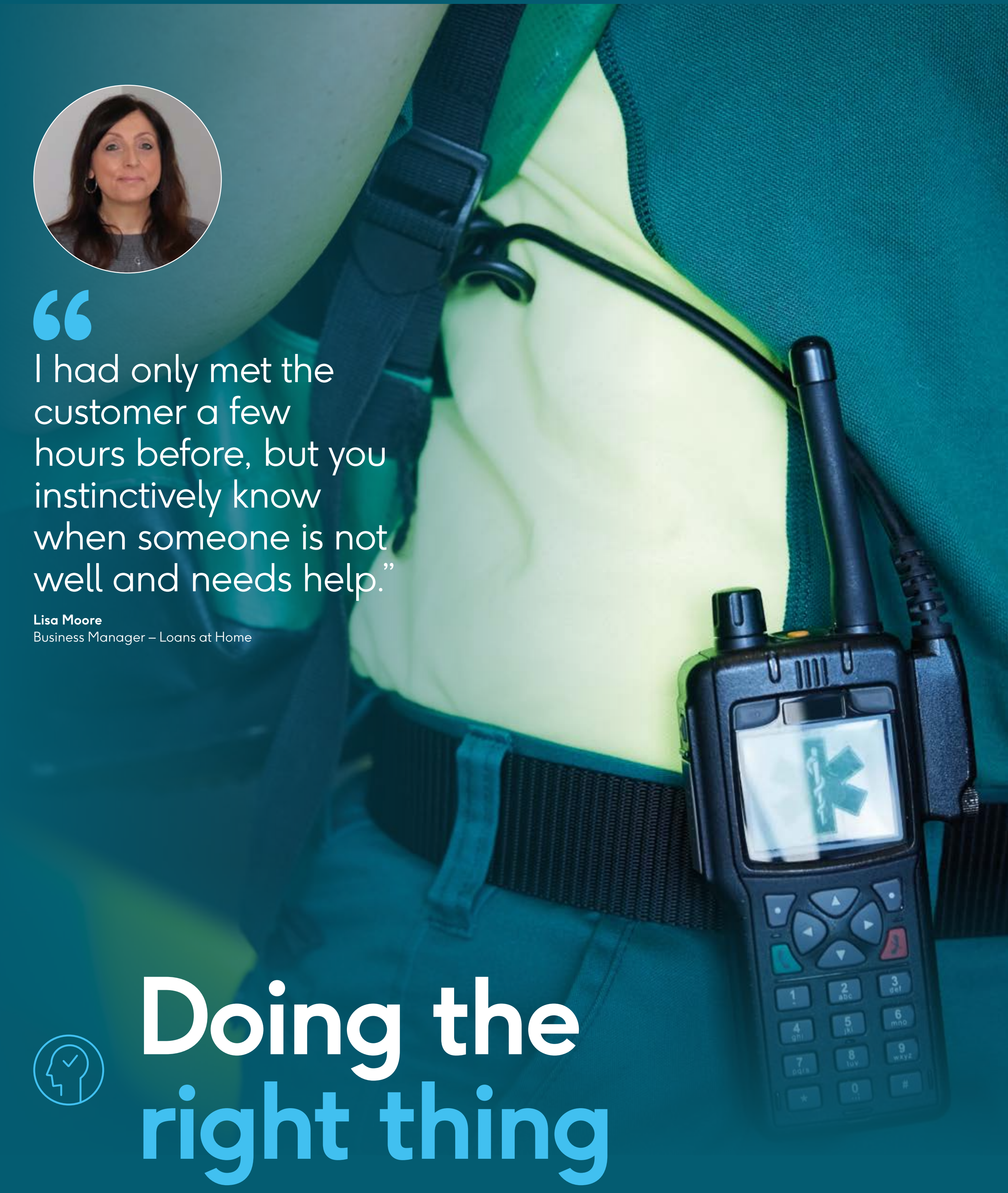
4. Governance and stakeholder management
- Approval and oversight of all key decisions and documentation relating to the firm offer for Provident Financial plc
- Approval of Matters Reserved for the Board and Board Committee Terms of Reference
- Approval of Division of Responsibilities for Chairman and CEO
- Approval of Group-wide Governance Framework
- Consideration of Board composition and resolution to remove Miles Cresswell-Turner from the Board
- Remuneration decisions relating to Executive and Non-Executive Directors
- Review of stakeholder engagement

5. People and culture
- Consideration of the impact of the strategic move to relocate the Guarantor Loans Division to a single site
- Decision to widen the scope of the Nomination Committee to encompass governance and culture
- Review of corporate culture within the subsidiaries of the Group
- Briefing regarding the external academic research carried out regarding the role of women in the home credit market

Matters for 2020

The Company Secretary plans the Board and Committee activity for the coming year in conjunction with the Chairman and the Chair of each Board Committee. The plans for 2020 include the following topics:

	Strategy	Financial	Internal control and risk management	Governance and stakeholder management	People and culture
Review strategic initiatives	■				
Ongoing review of COVID-19 impact	■	■	■	■	■
Review of the funding structures of the Group	■	■			
Engage in a process to create distributable reserves		■		■	
Review of the financial performance of the Group		■			
Review of management performance and division performance		■			
Approval of budget, forecasts and projections		■			
Approval of the Group's half-year and full-year results		■			
Approval of risk appetites, tolerances and exposure			■		
Evaluation of corporate governance framework				■	
Review of business continuity and crisis management arrangements			■		
Review of the Group's corporate culture					■
Review of employee engagement reports from divisions					■
Review of stakeholder management				■	
Investor relations				■	
Analysis of competitor activity	■		■		
Legal and regulatory horizon scanning			■		
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, CEO pay ratio 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 anti-money laundering officer reports			■	■	
Review of health and safety across the Group			■	■	
Review of anti-bribery and corruption policy, gifts and hospitality register, and conflicts of interest register				■	■
Oversight of SMCR compliance in divisions			■		■
Approval of division of responsibilities, and Accountabilities, Delegations, Mandates, & Responsibilities Register			■	■	■
Approval of resolutions and corresponding documentation for AGM				■	



> I had only met the customer a few hours before, but you instinctively know when someone is not well and needs help."

Lisa Moore
Business Manager – Loans at Home

Doing the right thing

With over 20 years' experience in the industry, Lisa joined Loans at Home in 2014. In 2019 she was returning with one of her agents to issue a loan to a new customer that had been recommended by a neighbour and had been seen earlier in the day having requested an agent visit.

On returning to the front door, which was open when they arrived, they could see that the customer was on the floor and struggling to get to her feet. Having helped her to a seat, the customer's facial appearance suddenly changed and she was unable to lift her arms. As the lady's husband was at work and suspecting a stroke, Lisa didn't hesitate and went into a different gear, she called 999 immediately and explained what was happening – "I had only met the customer a few hours before but you instinctively know when someone is not well and needs help."

Fortunately, the ambulance arrived quickly and the paramedics said: "You have been a real angel today and saved that lady's life".

Embedding a positive business culture

Our purpose is driven by the firm belief that everyone should have access to credit they can afford. We have therefore developed a business model that seeks to provide affordable credit to those who are unable or unwilling to borrow from mainstream lenders. Central to our model is a focus on ensuring that we deliver our loan products and services in the right way. This requires us to nurture and maintain a positive culture so that we can continue to deliver positive outcomes for our customers as well as broader benefits for our other key stakeholders (see 'Business Model' on pages 10 and 11 and 'Stakeholder management and our commitment to Section 172' on pages 46 to 59).

As a result, the Board has developed a structure to ensure that the Group's culture and core behaviours are monitored closely so that any issues are identified quickly and, if needed, changes made. This is achieved in a number of ways:

Regular evaluation of the governance framework

Culture forms a key component of the overall governance framework with each business responsible for the development of strong and positive cultures, drawing upon some key values and behaviours that have been identified as being key to our long-term success:

- Doing the right thing
- Integrity
- Shared purpose delivered through teamwork
- Clear communication
- Entrepreneurial leadership

Appropriate measures have been developed within each business operation to provide a 'cultural thermometer' that includes a number of metrics assessing a broad range of factors including good customer outcomes, satisfaction and engagement levels among both employees and self-employed agents.

The assessment of the governance framework (including culture) is then reported to the respective subsidiary boards with oversight of results at a Group level.

Engagement outside of the Boardroom

The Board has always recognised the value of experiencing our products and services first-hand by conducting periodic visits to our office locations and spending time to meet staff and customers and to hear about the hopes and challenges that they face on a daily basis. Armed with this insight, the Board is better placed to translate regular management reports into a deeper understanding of the dynamics, challenges and opportunities for our business.

Whilst most Board meetings take place at the Group's head office in London, there has been a conscious effort to try and host some Board meetings at subsidiary venues, thereby providing the Board with additional perspective and the chance to meet employees directly (see Governance at a glance on page 64).

Reporting against a good customer outcomes dashboard

The delivery of good customer outcomes is a key objective for all FCA-regulated consumer lending businesses. Whilst each of our business divisions tracks a large number of performance measures, as a Group we have identified a subset of these that are now being captured to form a single good customer outcomes dashboard, thereby enabling executive management and the Board as a whole to identify potential issues before they become significant. This tool is continuing to evolve and we hope to provide further details on progress in future Annual Reports.

Engaging with our stakeholders

Stakeholder engagement

Engagement with key stakeholder groups strengthens our relationships and is central to the achievement of the Group's strategic objectives. As noted on pages 46 to 59, our approach to engagement draws upon a number of different processes including employee surveys, a series of processes to assess levels of customer satisfaction and ongoing conversations with regulators, suppliers and shareholders.

From a governance perspective, the Board receives regular updates on insights and feedback from stakeholders and the Directors also make a point of engaging directly with some of our stakeholders through face-to-face meetings, something which provides them with a deeper understanding of our relationships and their importance to the Group when making decisions. In addition to regular, but less formal consideration of stakeholder needs, the Board undertakes a formal review each year to ensure it has a clear view of stakeholder wants and needs and to ensure that our actions remain aligned with our overall purpose, objectives and strategy.

Stakeholder name	How the Board is kept informed
Customers	Monitoring of good customer outcomes via a good customer outcomes dashboard gives the Board a range of indicators to enable and focus discussion where and when necessary. Customer listening groups and online feedback also form part of the operational updates provided regularly from operational subsidiary CEOs to the Board.
Employees and self-employed agents	Employee forums ensure that ideas and views are heard with a direct line of communication to the Board via Heather McGregor in her role as the Non-Executive Director with responsibility for workforce engagement. Engagement surveys are conducted annually in all three operational businesses. Results and commentary are reviewed by the Board. Online forums and blogs enable colleagues to 'shout out' and be recognised and rewarded by their colleagues for examples of positive culture and where they have really lived the Group's targeted values and behaviours. Access to the intranet is available to Board members. Agent engagement surveys and listening group results are reported to the Board.
Regulators	Regular updates are received by the Board regarding regulator contact and horizon scanning of any proposed or actual regulatory change that may impact the business. Board members are also directly involved in engagement with our regulators, as and when required. Regulatory affairs updates are provided to the Board on a regular basis including details of management's engagement with MPs, Members of the House of Lords, civil servants, think tanks and relevant special interest groups.
Partners and suppliers	The Board is required to approve any significant financial commitment with key suppliers. Risk management reporting into the Board also identifies any key supplier risks to the business and how they may have changed or how they are expected to change in the future.
Communities and charities	The Board receives updates with regard to the various community-based activities and charities supported by the Group.
Providers of funding	The Board receives regular updates on the Group's interactions with equity and debt providers that take place through a number of formal processes such as the Annual General Meeting, investor roadshows and results briefings, as well as through more ad hoc interactions including one-on-one meetings, conference calls and presentations at industry conferences. By maintaining a positive relationship with a number of sell-side analysts, the Group also ensures that there is a broad range of third-party research that is available and published on the Company. Direct contact between the Non-Executive Directors and shareholders ensures that shareholder opinions are heard directly by the independent members of the Board.
Environment	The Board receives regular updates with regard to the Group's environmental impact in the form of updates from subsidiary boards.

Workforce engagement

Given the important role played by our workforce in driving our business model (see pages 10 and 11) members of the Board monitor and review the results of annual staff and self-employed agent surveys closely (see below).

Board members make a point of visiting office locations across the country of each of our business divisions, giving them a chance to hear first-hand about the experience of our people that interact with our customers every day. HR Directors within each operation of the Group are now required to provide a regular update to the Board covering the areas outlined below, in addition to a general update on HR matters, employee benefits and general wellbeing.

During 2018, the Board appointed Heather McGregor as Non-Executive Director with responsibility for engagement with the workforce (Code provision 5). During 2019, the Group's approach to workforce engagement has been further enhanced with the introduction of a series of employee forums. It is expected that these will be fully operational during 2020. A summary of the key processes of engagement utilised by the Board in 2019 is set out below:

Workforce engagement

1

Employee and self-employed agent engagement surveys

Conducted each year, surveys have been running in all NSF operations for a number of years and are seen by the workforce as a key thermometer of engagement both in terms of completion rate and scores. The key results from the surveys conducted in 2019 show that colleagues have a strong affinity with the company they work for, that there is a general feeling of openness, supportive management, with strong values and principles and a clear focus on 'doing the right thing'. As we did in 2018, once the surveys are complete we then play back the results and provide management's interpretation of the results, together with a summary of actions taken and to be taken. We always encourage teams to discuss the results and to try and come up with additional ideas for improvement that management then reviews and actions. Heather McGregor reviews all freeform comments received to ensure that there is a comprehensive review and no material feedback is overlooked and a summary is then provided to the Board.

2

Employee forums

While such forums had been in place in branch-based lending and guarantor loans for a number of years, they were launched in the home credit division for the first time in November 2019. Topics covered include culture, financial performance, business improvements, communications and consultation. It is envisaged that Heather McGregor will attend at least one forum for each division over a rolling 12-month period.

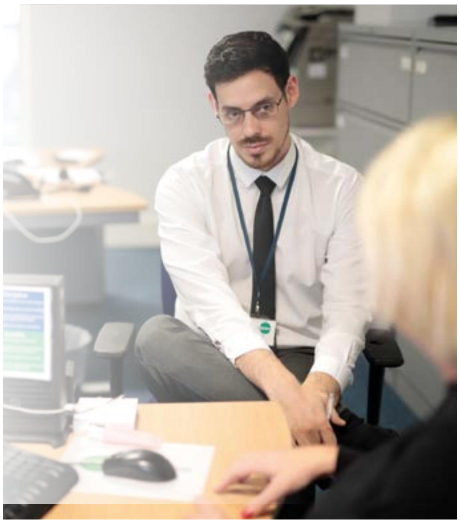
97%
of employees agree that Loans at Home is committed to treating its customers fairly

3

Ad hoc events

In addition to surveys and forums, members of the Board also attend subsidiary management conferences and culture development programmes while subsidiary members of staff are invited to attend NSF level stakeholder events including Board meetings as well as results presentations and investor days.

4



Site visits

Over the course of the year, members of the Board have visited a number of office locations of all three divisions – a process that has provided a valuable insight into the day-to-day running of the business. As well as spending time with staff members such as with the collections team in our Guarantor Loans Division, Board members have also spent time mentoring key senior members of the management team.

20

site visits were conducted by Board members during 2019 (in addition to Board meetings)

5

Other initiatives

The Group operates an intranet-based recognition scheme where senior management is able to identify and recognise staff that have produced great work and/or have demonstrated that they are working in a way that is consistent with the Group's target values and behaviours. As the process is online, the recognition is immediate and can also be 'liked' and 'commented' upon by fellow colleagues.

The wellbeing of our workforce is a key area of focus and we have started to conduct regular mood surveys to provide management with a 'temperature check' on how the organisation is feeling and to identify any concerning trends. Complementing this effort has been a series of mental health support initiatives across the Group e.g. mental health first aiders are now trained and in place at both Everyday Loans and Loans at Home.

Finally, we have been hugely encouraged by the enthusiasm of our people to put something back into local communities. In addition to supporting specific charity events, we have also supported a number of local events organised by Loan Smart, a charity focused on raising awareness about the dangers of illegal money lending and which is supported by the Group.

“

…the Company has really taken care of me”

Everyday Loans survey

Employee forum members' Q&A

The Group is committed to communicating regularly with colleagues across each division and at all levels of seniority. During 2019, our branch-based lending and home credit divisions established an employee forum with representatives from the respective branch networks and Head Office locations.

Members of the forums were selected by their peers to represent their views and act as a conduit for feedback into the Boardroom.

Following the decision to consolidate our guarantor loans activities onto a single site in Trowbridge, 2020 will see the establishment of a third forum for divisional staff to feedback their views to the Board.

"Open lines of communication between staff, management and other business areas are crucial."

Adam Kaewchom-Farr
Collections Associate – Guarantor Loans Division – with the Company ten months

Q.
Why do you feel it's important to have an employee forum?

A.
Open lines of communication between staff, management and other business areas are crucial. Representatives can obtain more information as it can often be an easier environment than approaching management directly.

Q.
How do you feel Heather McGregor's role as NED on the plc Board with responsibility for employee representation might align to the role that the forum plays?

A.
Heather McGregor has advanced knowledge within the finance industry having worked in different countries with different cultures, alongside being the founder of the Taylor Bennett Foundation which works to promote diversity in the communications industry. Heather is fully aligned to the forum as her experiences in communications can provide great guidance and direction to those running and being a part of the forum.

"I feel personally responsible to lead by example… …to really push the new culture for the better."

Chris Pilley
Area Manager – Everyday Loans – with the Company 13 years

"I get to show colleagues that when they speak, their voice is heard."

Karl Dunford
Senior Customer Sales Representative – Guarantor Loans Division – with the Company five years

Q.
Why do you feel it's important to have an employee forum?

A.
Sometimes colleagues do not want to bother their managers with something they feel is trivial. However, sometimes the ideas that people have, turn out to be real winners. This gives everyone the opportunity to be listened to and in a fair environment.

Q.
What's the best bit about your role on the forum?

A.
Being able to share my passion for the role with the entire team. To show colleagues that when they speak, their voice is heard.

Q.
Tell me a bit about the role you play on the forum – what matters are discussed at each meeting? What topics if any, you'd like to see discussed but haven't been covered as yet?

A.
I see my role in the forum is to be a voice for both the network and our Executive Committee so there is a free flow of communication between the two. Also, I feel personally responsible to lead by example on the right thing to do within the Company to really push the business culture for the better. We will discuss the direction of the Company in the coming months. Branch level issues are also covered i.e. staffing, systems, leads etc, charitable suggestions, and suggestions for out-of-work events activities. Pretty much anything that can change/evolve the Company for the better.

Q.
Why do you feel it's important to have an employee forum?

A.
It's important because it backs up the cultural change that we are trying to instil throughout the business, there are a lot of staff that have been here for many years who have seen similar things like the forum come and go. Every time a change is made, no matter how small, it reinforces that everyone's voice is important and that the culture is changing for the better. It won't happen overnight but the longer it goes on the more people will believe and buy in.

"Heather McGregor's role will be crucial in implementing discussions and forum agreed plans/ideas."

Kyle Morgan
Area Manager – Loans at Home – with the Company 18 months

Q.
Do your colleagues use you as a 'sounding board' to take matters to the forum? How do you communicate what takes place or what decisions have been made at the forum? Who decides the topics to be discussed at the forum?

A.
I have the ability to reach out to everyone involved in my region – including the Area Managers, Business Managers as well as our self-employed agents – all three are customer-facing and can provide vital feedback. We communicate via the Area Manager team which will then filter down to their respective teams. With the scope of the whole Company it will be the responsibility of the forum to create the agenda and confirm that before the next scheduled meeting.

Q.
How do you feel Heather McGregor's role as NED on the plc Board, with responsibility for employee representation at the Board, might align to the role the forum plays?

A.
Heather McGregor's role will be crucial in implementing discussions and forum agreed plans/ideas. Her profile and experience in leading will give value to the forum and provide it with same independent advice.

Board evaluation

The annual evaluation of the Board's performance 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.

NSF operates a rolling approach to evaluation with an external review being conducted every third year. In 2019, following the three-year cycle, the evaluation was undertaken by the in-house Company Secretarial team, building on the prior year's review that had been conducted by Lintstock and focusing in particular on the recent changes in the Code.

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, human resource management, and priorities for change.

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. New appointees 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 2019 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 2019 included cyber risk and the SMCR.

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.

Board evaluation results

Key findings in 2018 and objectives for 2019	Increased engagement between the Board and colleagues within the operational businesses.	Increased focus on identifying talent within the businesses to enable more coordinated succession planning around the Group.	More targeted training for Directors.	Wider external feedback to provide the Board with a richer context for decision-making.
Actions taken during 2019	The Board met at subsidiary locations during 2019, enabling Board members to meet and hear directly from more subsidiary staff. Board members also visited branches on a number of occasions throughout the year (see page 64).	Output from subsidiary boards 'talent spotting' is available to the Group CEO which in turn helps to drive more informed succession planning. Succession planning at Group level has expanded to encompass a wider range of roles.	Training during the year covered specific topics such as SMCR.	Horizon scanning and external market updates are now included as regular Board or Risk Committee updates.
Key findings in 2019	Enhancement of management information at Board level and increased focused on developing communication channels between Board members and subsidiaries.	Continued focus on succession planning and talent development.	Ongoing focus on Director reviews, induction and training.	Further development of monitoring and reporting on culture within the Group.

Information and support

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. 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. In addition, over the course of the year, the Company contacted key shareholders directly to consult on specific matters prior to their execution, including the offer for Provident Financial plc.

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 Chairman and Non-Executive Directors also hosted a shareholder event without the Executive Directors present and to which all major shareholders were invited.

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.

In November 2019, the Board appointed Niall Booker as Senior Independent Director. It is the intention of the Board that Niall will meet with key shareholders to listen and ensure clear lines of communication are maintained directly with the Board.

Annual General Meeting

Whilst shareholders are always 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 COVID-19 outbreak has meant that shareholders are advised, given concerns over health and safety, not to attend the AGM this year and to submit their votes in advance by proxy card so as to reduce the number of attendees in person.

The 2020 AGM of the Company is scheduled to be held 11.00 am on 30 June 2020 and a notice of meeting has already been dispatched to shareholders. A copy of the notice is also available to download from the Company's corporate website: **www.nsfgroupplc.com**.

As the 2019 audit has taken longer to complete than expected and in accordance with DTR 4.1.3R, the Company has used the additional time granted before publishing audited accounts, to consider "all aspects of their business and operations" and to ensure that the forward looking elements of our Annual Report adequately considered and took into account the impact of the pandemic insofar as possible upon the business.

Given the timescales, it has been necessary to apply to Companies House for an extension to the filing date of the Group's audited accounts. As the anticipated date for completion of the audited accounts did not allow a clear 21 days' notice prior to the required AGM date, the Company is required to hold a separate general meeting to approve our audited accounts. This will now take place on 28 July 2020 and the notice of meeting has been dispatched to shareholders with the Annual Report. A copy of the notice is also available for download from the Company's website: **www.nsfgroupplc.com**.

Sarah Day
Company Secretary
25 June 2020

Nomination & Governance Committee report

for the year ended 31 December 2019

Membership and attendance

3 The Committee met on three occasions during the year ended 31 December 2019.

Director	Attendance and total number of meetings that the Director was entitled to attend
Charles Gregson (Chairman)	3/3
Niall Booker	3/3
Heather McGregor	3/3

The principal purpose of the Nomination & Governance Committee (the 'Committee') is to monitor the balance of skills, knowledge, experience and diversity on the Board and to recommend any changes to the composition of the Board. During 2019, the remit of the Nomination Committee was considered and extended to more specifically encompass certain governance matters. For meetings from January 2020, following approval of the revised Terms of Reference in November 2019, the Committee's remit now also includes; oversight of the SMCR, environmental and social matters, culture, ethics and conduct, and also customer experience. This report gives more detailed information on how the Committee carried out its duties in 2019.

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: myself, Charles Gregson (Chairman), Niall Booker and Heather McGregor each of whose biographical details are set out on pages 62 and 63. Note that I did not chair the Committee when it was considering the appointment of a successor to the chairmanship of the Company.

Meetings and attendance

The table above details the attendance record of Committee members. The Chief Executive Officer, the Chief Financial Officer and Company Secretary also attended Nomination Committee meetings.

Role and responsibilities

During 2019, the Nomination Committee assisted 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 included:

- 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 the 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 ensure that Board vacancies were filled in a reasonable timeframe 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 new terms of reference, that explain 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 2019:

- reviewing the composition of the Board and the balance of Executive and Non-Executive Directors;
- reviewing the succession plans for the Board and the senior management within the Group; and
- forward planning and consideration of Board requirements in an enlarged Group if the offer for Provident Financial plc was successful.

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.

NSF seeks where possible, to develop talent within the Group. This has been borne out in 2019 by the appointment of a number of senior positions from within the Group's own talent pool including: the appointment of Jono Gillespie to the plc Board as Group CFO (effective 1 April 2020); the appointment of the CEO of the Everyday Loans operation; and also the appointment of the Everyday Loans and Loans at Home subsidiary CFO roles from 'home grown' talent (see page 84). This approach is underpinned by our desire to ensure that, where possible, those appointed to senior or approved roles within our operations have an in-depth knowledge of the Group's business.

The Group is also focused on ensuring an appropriate level of diversity, including gender diversity, exists 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. The Group Board currently has one female Director and a female Company Secretary and the Committee will give due consideration to Board balance and diversity when recommending new appointments to the Board. During the course of the year, at subsidiary level, there have been two female Board appointments and two female Company Secretary appointments, thereby changing the dynamics of our subsidiary Board composition and also the representation of subsidiaries at Group Board meetings. 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 if they should 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 2019 included Directors' duties and responsibilities, cyber risk, the 2018 revision of the Corporate Governance Code, and the SMCR.

Board evaluation and individual performance review
It is pleasing to report that all matters identified in the 2018 external Board evaluation have been addressed. In 2019, the evaluation was facilitated in-house and was based upon the approach from both internal and external reviews in previous years.

The results of the 2019 evaluation were presented to the Board in early 2020 and 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 future including the enhancement of Board Management Information; continued activity re talent identification and succession planning; Director training; and further development of formal reporting on culture.

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 to complete such preparation as is required for such meetings).

Board composition
During 2019 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.

In October 2019, the Board determined that the role undertaken by Miles Cresswell-Turner was no longer required and as a result, Miles left the Board on 21 October 2019. At that point the Board then comprised two Executive Directors and three Non-Executive Directors. In November 2019, Nick Teunon (Group CFO) announced his intention to leave the Board in the spring of 2020. Jono Gillespie, previously the Deputy CFO, replaced Nick Teunon as Group CFO on 1 April 2020 and was appointed to the Board on that date. Nick Teunon remained an Executive Director until 30 April 2020.

Whilst not strictly a requirement for a Standard Listed Company, given the Board's desire to comply with the Code, as far as it is practical and appropriate to do so, and given the continued expansion of the Group's operations since IPO, in November 2019 the Board determined that it was appropriate to appoint a SID and so Niall Booker was appointed SID with immediate effect. This appointment brought the Company in line with provision 12 of the Code.

As outlined in the Chairman's introduction, to enhance her role as Non-Executive Director with responsibility for employee matters, Heather McGregor became Chair of the Remuneration Committee in October 2019.

The composition and membership of the Board remains under regular review by the Nomination Committee.

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 2020
The main areas of focus for the Committee in 2020 include: an ongoing evaluation of Board composition; succession planning; a review of the Committee's terms of reference; a Board performance evaluation; and a review of Board effectiveness. In addition, the revised terms of reference provide scope for the Committee to also consider the prevailing culture of the business, the customer journey of each business and how environmental factors might affect the Group and its stakeholders.

Charles Gregson
Chair of the Nomination & Governance Committee
25 June 2020

Wherever possible we seek to leverage our internal talent pool

"As a business we provide opportunities to learn and grow and I will always support my team and others in the business to do so."

Francesca Herratt
Chief Financial Officer, Everyday Loans

I joined Everyday Loans as Chief Financial Officer in May 2019 from the Group's Parent Company, Non-Standard Finance plc, where I held the role of Group Chief Accountant for 3½ years. Previously, I held a finance director role at an award-winning employee engagement agency based in London having held finance roles in management consultancy firms and media agencies before that.

Q.
What do you enjoy most about working for the Group?

A.
The NSF Group create an environment where we can be honest with ourselves and each other. There is support throughout the businesses at all levels and the customer is at the centre of everything we do.

Q.
Can you outline what skills you've developed and grown whilst working for NSF Group – what new experience you've gained ?

A.
During my time at NSF, I oversaw the financial management of all divisions – including guarantor loans, home credit and branch-based lending. When I joined NSF, I had not previously worked in the non-standard market and therefore the role gave me the opportunity to understand better the diverse nature of the sector, the regulatory environment and how by lending responsibly we aim to deliver positive outcomes for each of our key stakeholders.

Q.
Given your background in the Group – what skill set do you think you'll bring to your new role and what challenges do you think you'll face?

A.
The move across to Everyday Loans enables me to play a more direct role in the Group's largest division. I can now be more involved in the day-to-day running of the business and its strategic development. I'm responsible for driving forward our financial strategy to ensure that our targets can be met whilst, of course, adhering to ever-changing legislation and accounting standards.

Q.
What are you looking forward to most in your new role?

A.
The team at Everyday Loans is diverse and has vast sector experience. I am thrilled to have the opportunity to work with those who go the 'extra mile' to achieve high levels of performance and good customer outcomes.

Q.
What can you 'give back' in terms of developing future talent within the Group?

A.
As a business we provide opportunities to learn and grow and I will always support my team and others in the business to do so. I hope to inspire my team and encourage them to speak out with new ideas and challenge the status quo. It is important to provide opportunities for colleagues to not only improve their own knowledge and skills specific to their role, but also to provide opportunities to understand the wider business strategy and sector in which we operate.

Membership and attendance

15 **The Committee met on 15 occasions during the year ended 31 December 2019.**

Director	Attendance and total number of meetings that the Director was entitled to attend
Niall Booker (Chairman)	15/15
Charles Gregson	13/15
Heather McGregor	14/15

Membership

The Audit Committee (the 'Committee') comprises three Non-Executive Directors, two of whom are independent. Provision 24 of the Code requires that the Audit Committee for smaller companies comprises two independent Non-Executive Directors and that the Chair of the Board should not be a member of the Committee. The Company does not meet provision 24 of the Code due to the Chairman of the Board also being a member of the Audit Committee. However, due to his professionalism, independence of character and judgement, together with his experience, and taking into account the size and nature of the Company, it is deemed appropriate for him to remain a member of the Audit Committee. 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: myself – Niall Booker, Charles Gregson and Heather McGregor each of whose biographical details are set out on pages 62 and 63.

Meetings and attendance

The Committee met on 15 occasions during the year ended 31 December 2019, nine of which were scheduled meetings and six additional meetings.

As Chair of the Committee, I meet 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. During the offer for Provident, a number of additional Audit Committee meetings were convened, sometimes at short notice. Attendance at scheduled meetings was 96.3% for Committee members (one scheduled meeting was not attended by Charles Gregson for health reasons, whilst other non-attendance was for additional meetings at short notice during the offer for Provident).

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 function 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 Chair, 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 2019 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 2019 which resulted in £12.5m impairment to the goodwill asset for Loans at Home. This was despite a strong operational performance and was due to the significant decline in the valuations of all of the listed companies in the non-standard sector since the end of 2018.

As part of the full year audit, a further goodwill impairment assessment as at 31 December 2019 was undertaken by determining the recoverable amount of each cash generating unit ('CGU'). This recoverable amount was then compared to the respective net asset values and carrying values of goodwill. The Committee challenged the appropriateness of management's key assumptions, in particular, the price earnings ('PE') multiples applied to forecast earnings, discount rates and terminal growth rates applied, and the ability of the CGUs to achieve their forecast earnings and cash flows. It was concluded that as at 31 December 2019, the fair value less cost to sell valuation method should use independently sourced market multiples as at 31 December 2019 and that these should be applied to 2019 actual earnings to determine the recoverable amount. As a result, whilst no further impairment to the value of the goodwill asset for Loans at Home beyond the £12.5m recognised at 30 June 2019 was required, an impairment charge of £10.6m was required to be recognised in relation to the value of the goodwill asset and the intangible assets of the Guarantor Loans Division, and an impairment charge of £44.8m was required to be recognised against the value of the goodwill asset for Everyday Loans. Factors leading to these impairments can be attributed to the significant decline in the valuations of comparator companies since 31 December 2018 and increased uncertainty in the macroeconomic and regulatory environment. In the case of the Guarantor Loans Division, the fall in the market value of the market leader in this space will also have had an impact on market multiples applied to our business. As the PE multiples applied and earnings used in the calculation of recoverable amounts were not subject to estimation which would typically arise from the use of forecasts, the Committee was satisfied with the final goodwill impairment losses recognised. Further detail is set out in notes 2 and 15 to the financial statements.

2. IFRS 9 – macroeconomic weighting of a stressed scenario

The Committee has, over the course of the year, received regular updates from management to ensure that the assessment of the macro-economic environment was regularly reviewed and that the accounting standard continued to be applied appropriately.

During the course of the year, the Committee determined that the probability of a downside scenario had become more likely given the external uncertainty caused by Brexit and the calling of a General Election, which had, in the Committee's opinion, resulted in a less stable economic environment. As a result, the Committee agreed to increase the risk weighting of a stressed scenario from a 0% downside and 10% severe downside stress to a 30% downside and 15% severe downside stressed weighting. The result of this was an increase in the level of provisioning for the loan books of both the branch-based lending and guarantor loans divisions. There was no increase in provisioning in home credit because it has a history of high resilience to macroeconomic shocks.

3. Impairment of customer receivables

There is 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 ultimately concluded that the level of provisions held against the Group's loan book was reasonable. As described below, a prior year adjustment arose from the Committee's review of loan coverage and the full review which followed by the newly appointed CFO. Further detail regarding the assumptions used in the impairment judgements is set out in note 2 to the financial statements.

4. IFRS 9 – prior year adjustment

On transition from IAS 39 to IFRS 9 on 1 January 2018 and having completed a detailed assessment of the probability of default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('ED'), the Group increased its loan loss provision to take account of expected credit losses in accordance with the new IFRS.

As part of the review of the 2019 financial statements, the Committee challenged management regarding the level of provision in the Group's balance sheet. Upon further investigation, management determined that there was an error in the data used by the branch-based lending and guarantor loans divisions to calculate their post model adjustments ('PMA') to the provision and that this had led to a miscalculation of the provisions required since transition to IFRS 9 on 1 January 2018. Management investigated the data error and revised their PMA calculations and the Committee concluded that prior year adjustments of £3.2m at 1 January 2018, accumulating to £4.0m at 31 December 2018, were required to the expected credit loss provisions to correct this error. The Committee concluded that the investigation had identified the root cause of the error and the control deficiencies which had led to this error. The Committee acknowledged the remediation steps which had taken place to correct the error in the 2019 financial statements and were satisfied that the subsequent controls identified by management would sufficiently mitigate the risk of this occurring again. The Committee were comfortable that management were in the process of implementing the required changes.

Other prior year adjustments which have been corrected in the 2019 financial year include the reclassification of software from property, plant and equipment to intangibles, and the re-presentation of Founder Shares prompted by their vesting in October 2019. Control deficiencies have been identified in relation to these errors and subsequent remediation steps have been put in place such as the alignment of reporting of intangibles across the Group and a review of the Founder Share position at the end of each financial year. The Committee were therefore comfortable that the risk of these errors occurring again have been sufficiently mitigated.

Further detail is set out in note 1 to the financial statements.

5. New debt facility

Following solid loan book growth during 2019 and in order to reduce funding costs for the Group over time, NSF announced on 11 March 2020 that it had entered into a new six- year £200m securitisation facility provided by Ares Management Corporation ('Ares'). In addition the Group has a £285m term loan facility provided by a group of institutional investors and a £45m revolving credit facility provided by Royal Bank of Scotland. The Committee challenged management on the new securitisation facility and received advice from Lazard & Co. Limited regarding its suitability for the Group.

The Committee further noted that whilst £15m of the securitisation facility has been drawn post year end, as detailed in the going concern and viability sections which follow, the Group is currently in breach of certain portfolio performance covenants as a result of the impact of COVID-19 and whilst a temporary waiver has been granted by Ares, the Group is currently prevented from drawing down further from the facility. In addition, the combined impact of the prior year adjustment and COVID-19 on the net loan book means that, there exists material uncertainty over whether the Group will be able to comply with some of the terms in the new securitisation facility. Without further explicit waivers from Ares in the event of such non-compliance there is therefore a material uncertainty as to whether the Group can access additional funding should it be unable to comply with such terms.

6. IFRS 16

IFRS 16 is a new accounting standard that was adopted in 2019 and addresses the identification and treatment of lease arrangements in the financial statements of both lessees and lessors. The Committee had oversight of the change in accounting adopted by the Group and confirmed its acceptance that the treatment was consistent with the accounting policy.

7. Distributable Reserves

In April 2019 it was identified that on account of certain technical infringements regarding historic distributions, in particular a transaction between the Group and certain subsidiary entities which had resulted in a circularity issue between the entities and following an intercompany dividend of £11 million in June 2016, none of the entity's distributions to shareholders since incorporation to 2018 were made out of distributable profits.

In light of this discovery, the Committee challenged both management and the Group's auditors regarding the procedures performed over the £11m intercompany dividend paid in 2016 and the Group's distributable reserves. The Committee noted that whilst the question on legality of dividends had been raised prior to approval of any payment of dividends, there was a failure to identify the circularity issues at the time of distribution and therefore a deficiency in controls in relation to this. In order to rectify the issues, the Group obtained the Court's and members' permission for capital reductions of: 5,070,234 ordinary shares that were purportedly repurchased between 2017 and 2019; and £75 million of the amount standing to the credit of the share premium account cancelled.

The Committee, having taken legal and accounting advice, felt confident that the rectifying steps noted above and subsequent controls put in place as detailed in the Group's internal control dividend policy, which has been implemented subsequent to the event, were sufficient to significantly mitigate the risk of this occurring again.

These controls included:

- Including in the Group's: (a) annual financial statements; and (b) its half-year results, a note setting out the quantum of reserves of the Company which, as at the relevant accounts date, represent realised profits for the purposes of the Companies Act 2006 ('Act'). These statements will be, respectively, covered by the audit or review opinion (as applicable) provided by NSF's retained auditor from time to time.
- Each future distribution made by NSF or one of its Group companies, whether by way of dividend, share buyback or otherwise, will be reviewed by external legal counsel and external accounting advisers from time to time to ensure it is in compliance with IFRS, the ICAEW technical guidance and the Act and to confirm that the appropriate administrative actions (such as the filing of relevant accounts with Companies House) have been carried out in a prompt and fully compliant manner. Any future corporate actions by NSF or other companies within the NSF Group which may have an effect on its equity and/or distributable reserves position will also be subject to external review.
- Maintaining a rolling forecast of its distributable reserves position and tracking of actual reserves as part of its ongoing dividend planning activities, ensuring that any variances from plan are managed within reasonable levels of tolerance and highlighted to the NSF Board accordingly.

The Committee will continue to monitor the distributable reserves position of the Group and effective operations of controls. As noted elsewhere in this document, the statutory loss suffered by the Group in 2019 will require a further restructuring of the Group's reserves in order for it to be in a position to make future distributions, should it choose to do so.

8. Going concern basis of preparing the financial statements

Pre COVID-19, the Committee assessed the forecast levels of net debt, headroom on existing borrowing facilities and compliance with debt covenants. For the purposes of going concern, this analysis covered the next 12 months and considered a range of downside sensitivities, including the impact of a macroeconomic downturn, increased regulatory risk and a reasonable worst case. Following the outbreak of COVID-19 subsequent to the year end, the Committee and Management agreed that further stress tests should be undertaken to understand the impact of the pandemic. As part of this analysis, the Group modelled a number of scenarios to try to capture the extraordinary circumstances brought about by the COVID-19 pandemic and concluded that there exists a material uncertainty around the performance of the Group and its ability to stay within its financial covenants, with both very much influenced by a number of factors outside of the Group's control including the severity and duration of the pandemic, the way in which both Government and consumers respond and, in the event of a potential covenant breach, the granting of waivers by lenders and any further conditions and costs associated with this.

As a result of the impact of COVID-19, the Group has at the date of signing the accounts, breached its portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. However recognising that such a breach is as a result of COVID-19 which is beyond the Group's control, Ares has granted a temporary waiver for this breach covering the period up to 29 June 2020 so as to allow time for a more permanent solution to be agreed. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the securitisation facility in full.

As part of its going concern assessment, the Committee reviewed both the Group's access to liquidity and its future balance sheet solvency. For liquidity, the Group produced two scenarios: (i) a most likely (or 'base case') scenario which involves restricted lending across the Group in order to mitigate the risk of covenant breaches; and (ii) a downside scenario which applies stresses in relation to the key risks identified in the base case.

Under the base case, we have assumed the waiver granted by Ares is extended and no repayment of currently drawn amounts is made. Whilst the headroom which exists in the financial covenants remains very tight, the Group does not expect to breach any further covenants in the next 12 months and therefore would not require further covenant waivers from its lenders in order to remain viable. The Group has considered a stress to the base case where it is required to repay the £15m currently drawn under the securitisation facility. Under this stressed scenario the Group still does not expect to breach any further covenants over the next 12 months.

Under the downside scenario, the Group would be expected to breach certain covenants during the next 12 months and would therefore require waivers from its lenders in order to remain viable. The Committee additionally ran a liquidity reverse stress test on the base case to identify the level expected collections would have to fall by to cause the Group to deplete all cash reserves. This assumes no further lending and a corresponding fall in collections with no change to operating expenses. The result of this showed that collections would have to fall by a further 65% from expected forecast levels in the base case for the Group to become illiquid, assuming no access to further funding. Such a reduction in collections, based on evidence to date was thought by the Committee to be an unlikely event.

With regards to the balance sheet solvency of the Group, the Committee noted that under both scenarios, the Group remained in a net asset position. Upon adding a further stress to write-off all remaining goodwill on the balance sheet as at 31 December 2019, the Group remained solvent.

The Committee felt that the range of assumptions made in both the base case and downside scenario were such that given the uncertainties around the full general and idiosyncratic impact of COVID-19, there remained a material level of uncertainty around the impact on the Group's ability to meet its covenants and if they weren't met, the likelihood of a further waiver being granted by the lenders as well as the full impact on the Group's balance sheet.

The Committee acknowledged the considerable challenges presented by the outbreak of COVID-19 and the material uncertainty created for the going concern status of the Group. However, following a number of steps taken by the Board (reduced lending volume across all three divisions, a reduction in staff numbers, the furloughing of a number of staff and the deferral of payments to the UK tax authorities) and despite the material uncertainty associated with forecast assumptions, purely as a consequence of COVID-19 as noted above, it is their reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for the next 12 months and therefore has adopted the going concern basis of accounting.

Given the widespread government-led support to businesses, the steps taken by UK regulators as well as some market data from analogous situations and discussions held with each of the Group's lenders, should the Group find itself in a position where it is faced with further covenant breaches, the Committee has a reasonable expectation that the Group's lenders will agree to waive potential covenant breaches to an extent, albeit at a higher cost. The Committee notes that current negotiations with lenders suggest that whilst it is likely that waivers would be given, at a cost, to cover reasonable deviations from the base case scenario, waivers which would be required to fully cover the downside scenario are beyond what is currently envisaged in the negotiations. There is therefore a material uncertainty regarding whether the Group would be able to operate within the limits set by its lenders in such a scenario. As mentioned above, the Group notes that as at the date of signing the accounts, there has been a breach of portfolio performance covenants in relation to the securitisation facility, thereby preventing us from drawing down further from this facility. This has arisen as a result of the impact of COVID-19 on the loan book of the Guarantor Loans Division. Recognising the portfolio performance covenant breach is as a result of factors beyond the Group's control, a temporary waiver has been granted by Ares for this breach covering up to 29 June 2020 to allow time for permanent changes to the treatment of COVID-19 flagged loans be agreed. As set out above, we expect that the waiver will be extended for a defined period should negotiations not reach a conclusion by 29 June 2020. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the securitisation facility in full. The Group is not currently in breach of any other covenants associated with the securitisation facility and is currently not in breach of covenants associated with the term loan and RCF facilities. The assumption of lender support for covenant breaches forms a significant judgement of the Committee in the context of approving the Group's going concern status.

As highlighted above, whilst the Directors believe the Group will remain a going concern, a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Such a material uncertainty includes the impact of potential reduced levels of collections and lending on the Group's financial performance, compliance with existing financial covenants and whether waivers will be granted by lenders (and under what terms) in the event of a covenant breach. The Directors will continue to monitor the Company's risk management, access to liquidity, balance sheet and internal control systems as well as lending and collections.

The same conclusion has been made in relation to the statement on longer-term viability as discussed on page 90 of this report.

9. Viability Statement
The Committee reviewed the time period over which the assessment is made, along with the scenarios that were analysed, the potential financial consequences and assumptions made in the preparation of the statement. The Committee concluded that the scenarios analysed were sufficiently severe but plausible and the time period of the Viability Statement was appropriate, given the alignment with the budgeting process.

10. Review of the 2019 half-year results
The review during the year included the following items:

- review of impairment of the goodwill asset and the related calculation of the write-down of the carrying value of the goodwill relating to Loans at Home;
- review of customer receivables valuation and revenue recognition methodology including EIRs;
- review of the adoption of IFRS 16 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.

11. Review of the Annual Report and 2019 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 IFRS 9;
- reviewed the accounting treatment proposed regarding the implementation of IFRS 16;
- 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 2019 on a going concern basis, subject to the material uncertainty noted above;
- 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 2019; and
- reviewed the statement on internal controls.

Further details on the role of internal audit are set out below.

12. Internal audit function
The internal audit function, which is provided by a third party, reports regularly 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 discussed the internal audit function informally 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.

Further details on the role of internal audit are set out below.

13. 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 in note 6 to the Financial Statements.

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.

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.

During the year, the Corporate Reporting Review team which forms part of the Financial Reporting Council (FRC) conducted a review of the Group's 2018 Annual Report and Accounts. The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects. This review was satisfactorily completed and in a letter dated 17 December 2019, the FRC advised the Company that it had no further requirements for information from the Company.

In addition, the Committee was made aware of the FRC's Audit quality review team's intent to review the 2018 Deloitte audit of NSF. As part of this process the Chairman of the Audit Committee spoke with the FRC. Deloitte kept the Company up to date as the review progressed and advised the Company in March 2020 that it had received the FRCs final report and provided the Committee with sight of that report. The Committee has been working with Deloitte and believes the 2019 audit has responded to any issues raised with Deloitte in the FRC's final report. Based on this report, following detailed discussion with management, and having evaluated the performance during the 2019 audit, the Audit Committee felt it was still appropriate to recommend the appointment of Deloitte as the external auditor for consideration by shareholders at the 2020 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 2019 the level of non-audit fees amounted to £1,800,000 (2018: £63,000). The non-audit work carried out during 2019 related to the review of interim financial information, review of distribution calculations and associated disclosure and acting in the capacity as reporting accountant in relation to the offer for Provident. 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 2019 represent 313% (2018: 9%) of audit fees.

The Audit Committee reviewed its policy for the provision of non-audit services by the external auditor (the 'Policy') as part of the annual review of the Corporate Policy suite. In line with the non-audit services policy, the Committee had challenged the appointment of the external auditor for non-audit work during the period to ensure independence. The Committee reviewed the level of non-audit fees paid to the Audit firm and recognising the unique circumstances of the Provident bid, the assurances around segregation given at the time by the auditor and a change in regulation which meant that such work could no longer be undertaken by the auditor, it has not felt necessary to alter its policy on non-audit fees, but continues to keep this under review. No further changes were made to the Policy in 2019. Following recent regulatory changes, the Committee does not anticipate appointing the external auditor for any future non-audit work.

Internal audit
During 2019, KPMG, one of the UK's leading accounting firms, provided an outsourced internal audit function to the Group. The internal audit function seeks to complete audits of the key risks identified within the risk universe of the Group, with a focus on customer outcomes and regulatory risk.

At each meeting during the year, the Audit Committee, along with the Executive Management team focused on the progress made by management in dealing with actions raised during internal audit visits to ensure that the management responses were appropriate and timely in nature.

In addition, the Audit Committee also monitored the quality of the dialogue between internal audit and the Executive Committee in reviewing internal audit findings and agreeing action plans with appropriate levels of operational buy-in to deal with the points raised.

When reviewing the internal audit plan for 2020, the Audit Committee has considered the stage of maturity of the business and has reached the conclusion that the most effective approach to internal audit in 2020 will be to establish an in-house internal audit team that will develop in-depth knowledge of the Group, supported by externally sourced specialist personnel, where necessary.

The internal auditor reports directly to the Audit Committee thereby ensuring the independence and effectiveness of the internal auditor.

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

The Committee reviewed the viability assessments as described in detail below. It felt the scenarios analysed and the financial consequences and assumptions made in the preparation of the financial models used for the viability assessment were plausible and the three year time period used was appropriate. However as noted in the Viability statement itself, the Committee felt the viability was subject to the same material uncertainty noted above in respect of Going Concern.

In accordance with the 2018 FRC Corporate Governance Code, Directors are required to confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for an extended period. The Committee agrees with management that the extended period should be three years. 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 8 to 59) and the Group's principal risks and uncertainties, including COVID-19, and how these are managed (see pages 24 to 27).

The Group's strategy and principal risks underpin the Group's three-year plan and scenario testing, which the Directors review quarterly. The review of the three-year plan is augmented by regular updates from the divisional management teams. The Board reviews the Group's strategy in depth annually or more frequently if required.

The three-year plan is in line with the Group's strategic planning cycle and 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.

The Group has reviewed viability from both a liquidity and solvency perspective and has modelled scenarios to try to capture the extraordinary circumstances brought about by the COVID-19 pandemic. The performance of the Group and its ability to stay within its financial covenants is now very much influenced by the possible impact of COVID-19. Whilst the base case described in the following sections represents a realistic outcome, COVID-19 has created a material uncertainty around demand and collections which mean there remains a possibility of covenant breaches within the next 12 months and as noted above, in respect of going concern if provisions rise by a significant amount and the remaining goodwill is written off, in the absence of the raising of further capital, there will be a potential impact on solvency. The Committee notes that whilst the Group has entered into negotiations with its lenders for potential covenant waivers, the range currently envisaged for these waivers doesn't fully cover the downside scenario and therefore there remains material uncertainty as to the granting of these waivers, and if granted, the terms on which such waivers are given.

COVID-19 scenarios

Given the recent COVID-19 pandemic, the possibility of unprecedented operational disruption has heightened and we have already seen an impact to lending and collections activity. Whilst the full impact of COVID-19 on the Group's future financial performance remains materially uncertain and will be heavily influenced by a number of factors including the severity and duration of the pandemic as well as the way in which both Government and consumers respond, the Group has sought to produce both a base case scenario and downside scenario in order to assess the possible impact on viability and going concern. These scenarios include a number of assumptions which, were they to be inaccurate, would create material uncertainty as to the outcomes, such as when the Group's divisions will be able to restart lending, the level of demand for loans in the post lockdown COVID-19 environment, the ability of customers to make repayments, and the level of government relief available to both the Group's customers and its business (for example in regards to furloughed staff and deferment of taxes). The scenarios also consider the direct impact of COVID-19 on the Group's operations, for example as a result of a greater proportion of the workforce working remotely, the implementation of social distancing guidance, as well as the impact on key relationships with suppliers, brokers (for the branch-based and guarantor lending divisions) and agents (for the home credit division). The key scenarios considered are detailed below.

1) COVID-19 base case scenario

Liquidity

The base case forecasts reflect an achievable business plan that involves restricted lending across the Group in order to mitigate the risk of covenant breaches. In this forecast, recent government initiatives to support borrowers affected by the outbreak of COVID-19, such as the FCAs 'payment freeze' of up to three-months, have been considered in detail when assessing the impact on the Group. This process is made easier by the fact that forbearance is already a key feature of the Group's business model.

We have also modelled:

- The potential for increased modification losses on modified loans.
- A more severe macroeconomic impact of COVID-19 on collections and have modelled the possibility of a higher severe downside weighting in line with the sensitivities considered in note 34 to the financial statements when determining ECL.
- Lending levels are assumed to be restricted
- The payment of dividends are not included over the forecast period
- A lower cost base than forecast before COVID-19, which would be achieved through increased efficiencies and cost saving initiatives, reflecting a slower growth path of the Group.
- As noted in the Going Concern section, there exists a breach of portfolio performance covenants for which the Group has been granted a temporary waiver up to 29 June 2020 in order to allow time for permanent changes to be agreed, The base case therefore assumes that no repayment of the £15m drawn from the Ares facility occurs and in addition no further drawdowns from the securitisation facility are made.

Since the onset of COVID-19, the Group has already implemented a number of initiatives in order to conserve cash in the business during these uncertain times such as:

- a reduction in staff numbers;
- furloughing a number of branch-based lending staff;
- a 70% reduction in the bonus potential for Executive Directors in 2020; and
- the deferral of payment of a number of HMRC related taxes for a specified period.

The Group has considered the 19 June 2020 announcement by the FCA proposing an extension of the option of a payment freeze for borrowers experiencing difficulty due to COVID-19 to 31 October 2020. The Group has run sensitivities on the base case model in order to assess the potential impact and have concluded that the base case remains sufficiently resilient to these proposed changes.

Under the base case, the headroom which exists in the financial covenants remains very tight however given the Group would operate under a restricted lending business plan, it does not expect to further breach financial covenants in the next 12 months and therefore would not require further financial covenant waivers from its lenders in order to remain viable. Assuming covenant compliance and profitability in 2021 and 2022, it may also have the ability to refinance a proportion of its existing term loan facility as it falls due. However as noted earlier, as the headroom is very tight and the current securitisation facility is in breach of certain portfolio performance covenants, there continues to exist a material uncertainty in the assumptions and outcome of the base case as a result of the impact of COVID-19 and therefore the ultimate impact on covenants and the Group's ability to access the new securitisation facility, although initial negotiations with lenders suggest waivers could be granted, at a cost, to cover reasonable deviations from the base case. There is also a material uncertainty around the timing of a return to profitability.

Solvency
Under the base case, the Group would remain solvent from a balance sheet perspective. The Committee believes that provisioning of a magnitude that wipes out remaining reserves after all goodwill is written-off and assuming no further capital is raised is an unlikely outcome.

As noted above, the Group may have to further restrict lending activities and/or exercise further financial levers around costs in order to maintain solvency. Due to the tight headroom on financial covenants which exist under the base case and the uncertainty around the full impact of COVID-19, the Group notes that the movement in any one or a number of these assumptions creates a material uncertainty in the liquidity and/or solvency position of the Group.

Key risks to the assumptions made include:

- the possibility that the current performance of the loan book deteriorates beyond current delinquency trends;
- a further negative shift in the macroeconomic environment;
- higher level of loans rescheduled and/or deferred over and above that currently forecast;
- the inability to realise planned savings in operating expenses as the business shifts to a recovery phase during 2020; and
- in the event of covenant breaches, the response of the lenders to such breaches in terms of their willingness to waive such breaches and if they agree to do so, the terms on which they propose to grant such a waiver.

2) COVID-19 downside scenario
Liquidity
This scenario reflects stresses to the key risks described above. Under this scenario:

- the macroeconomic impact of COVID-19 is worse than that assumed under the base case;
- a more pessimistic severe downside weighting is adopted;
- collections fall dramatically;
- the Group experiences a c. 10% higher level of rescheduling;
- further deterioration in modification losses over and above that recognised under the base case; and
- the possibility that anticipated savings in operating expenses in 2020 and 2021 are not realised as well as an inability to further defer HMRC related taxes beyond three months.

Under this scenario, it is expected that the Group would breach certain borrowing covenants during the next 12 months, would not be able to access further funding over the period of breach and would require waivers from its lenders in order to remain viable. The waivers required under this scenario are beyond the range currently envisaged in the negotiations with lenders. The scenario also relies on a number of key assumptions including the Group's ability to:

- maintain collections at the rates forecast in the downside scenario with no further deterioration;
- operate efficiently under the new social distancing guidelines; and
- resume key relationships with brokers and existing customers quickly and that the overall level of demand for loans is as expected, which remains very difficult to predict.

Solvency
The Group would remain solvent from a balance sheet perspective under this scenario with the caveats noted above for the base case.

Assessment
Liquidity
Under the COVID-19 downside scenario, the Group would be expected to breach certain borrowing covenants during the next 12 months and would therefore require waivers from its lenders in order to access funding and remain viable.

The two scenarios outlined demonstrate that there remains a material uncertainty around the impact of COVID-19 on the Group. Whilst it is anticipated that the base case is the most likely outcome, the Board notes that the inability to predict the ongoing impact of COVID-19 means it is extremely difficult at this time to completely rule out the possibility of the downside scenario occurring. As a result, there remains a possibility of covenant breaches within the next 12 months.

Given the widespread government-led support to businesses, the steps taken by UK regulators as well as some market data from analogous situations and discussions held with each of the Group's lenders, should the Group find itself in a position where it is faced with further covenant breaches, the Committee has a reasonable expectation that the Group's lenders will agree to waive potential covenant breaches under the base case scenario, however these could be only up to certain limits and at a higher cost. The Committee notes that, in the event that waivers are granted by lenders, there is material uncertainty as to whether the waivers will capture the extent of covenant breaches which could be experienced by the Group should it find itself operating under the downside scenario assumptions, and therefore there is a material uncertainty regarding whether the Group would be able to operate within the limits set by its lenders.

In addition, the Group notes that as at the date of signing the accounts, there has been a breach of portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. This has arisen as a result of the impact of COVID-19 on the loan book of the Guarantor Loans Division. Recognising the portfolio performance covenant breach is as a result of factors beyond the Group's control, a temporary waiver for this breach has been granted by Ares up to 29 June 2020 in order to allow time for permanent changes to the treatment of COVID-19 flagged loans to be agreed. We expect that the waiver will be extended for a defined period should negotiations not reach conclusion by 29 June 2020. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the new facility in full. The Group is not currently in breach of any other covenants associated with the securitisation facility and is currently not in breach of covenants associated with the term loan and RCF facilities.

During the course of the next three years, the Group will face renewal or replacement of its existing debt facilities. The Committee felt that as both the base and downside cases showed profitability in 2021, subject in the case of the downside scenario, to the lenders granting further waivers, it was likely, but not certain, that the facilities would be renewed or replaced in 2022 and 2023.

The assumption of lender support for covenant breaches is a significant judgement of the Directors in the context of approving the Group's prospects, going concern and viability, as is the renewal of facilities.

Solvency
In regards to balance sheet solvency of the Group, the Committee noted that under both scenarios, the Group remained in a net asset position. Upon adding a further stress to write-off all remaining goodwill on the balance sheet as at 31 December 2019, the Group remained solvent.

Directors' statement on viability
The Directors acknowledge the considerable challenges presented by the outbreak of COVID-19 which has created a material uncertainty around the going concern and viability status of the Group. However, following a number of steps already taken by the Board and despite the material uncertainty associated with forecast assumptions, purely as a consequence of COVID-19, it is their reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for the next three years both from a liquidity and solvency perspective.

In making their assessment, the Directors took account of the Group's current financial and operational positions and recent trading activity and in particular, recent collections activity. They noted the recent securitisation facility agreement announced on 11 March 2020, that provided a six-year £200m facility to fund the operations of the business, but also considered the stricter performance conditions inherent in that facility which could restrict the Group's ability to drawdown from the facility. The Directors additionally considered the 'reverse stress test' conducted by the Group which showed that assuming no further lending occurs beyond April 2020, and additionally assuming current levels of operating expenses and collections and no repayment of facilities or access to further lending, collections would be required to fall from current expected levels in the base case by over 65% to result in an inability of the Group to fund operating expenses and interest payments beyond the next 12 months. As an additional consideration, the Directors noted that should the Group be required to repay the £15m existing drawings under the securitisation facility, under the base case, the Group would remain liquid and is not expected to breach its covenants. With regards to the balance sheet solvency of the Group, the Directors noted that under both scenarios, the Group remained in a net asset position and upon adding a further stress to write-off all remaining goodwill on the balance sheet as at 31 December 2019, the Group remained solvent with the caveats noted above in the base case.

The Directors recognise that should the Group pursue a level of growth significantly beyond the base case forecast, there would be a potential need during 2021 to increase the Group's debt facilities in order to support additional loan book growth and fund any increased lending post-COVID-19. The Directors also recognise that the current term loan and RCF facilities are due to mature in August 2023 and August 2022 respectively. However, they have concluded for the reasons noted above, that it is reasonable to assume that the Group's existing debt facilities will either be extended or replaced with similar facilities although they note that such extension or replacement is by no means certain. In addition, they discussed the potential financial and operational impacts of the principal risks and material uncertainty and the likely effectiveness of the current and available mitigating actions which include government support available to the Group and its customers, as well as the aforementioned ability of the Group to reduce lending and raise additional debt funding using the existing securitisation facility, either by remaining covenant compliant or through waivers.

As explained above, whilst the Directors expect the Group to remain in a viable liquidity and balance sheet position over the next three years under the base case presented, they note that there exists a material uncertainty around the impact of potential reduced levels of collections and lending on the Group's financial performance and therefore liquidity and solvency, compliance with existing financial covenants, and whether waivers will be granted by lenders and under what terms in the event of a covenant breach beyond the portfolio performance breach already identified and for which a temporary waiver has been granted. The terms on which waivers are granted and the ability of the Group to remain within these terms is materially uncertain. As these outcomes will remain highly dependent on the severity and duration of the pandemic, as well as the extent and pace of any recovery, the Board will continue to monitor the Group's financial position carefully over the coming weeks and months as a better understanding of the impact of COVID-19 is developed. The Board is in negotiations with lenders regarding covenant waivers, whilst at the same time evaluating all funding options, which may include the issue of further equity.

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.

As noted above, the Directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out more fully on page 87 and with the material uncertainty set out therein.

Niall Booker
Chairman of the Audit Committee
25 June 2020

Risk Committee report
for the year ended 31 December 2019

Membership and attendance

4 The Committee met on four occasions during the year ended 31 December 2019.

Director	Attendance and total number of meetings that the Director was entitled to attend
Heather McGregor (Chairman)	4/4
Niall Booker	4/4
Charles Gregson	3/4

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

Membership and attendance
The Committee consists of the Non-Executive Directors of the Company. The Chief Financial Officer, Company Secretary and Group Chief Risk Officer attended all Committee meetings. Other relevant parties are also invited to attend Committee meetings, as appropriate.

The Directors' attendance at the meetings during 2019 is recorded in the table above.

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 four times during the year. In addition, as Committee Chair, I 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, regulatory and political 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 2019
The Committee oversaw the continued embedding of the Group-wide risk management system (called Xactium) which continues to provide 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 Committee oversaw the risk management assessment that took place as part of the offer for Provident and the preparation for the wider risk universe that would have been realised had the offer been successful. In Q1 2020, the Committee reviewed and reassessed the Group's risk appetite statements and target residual ratings for each of the principal risks which, along with the confirmed risk scoring matrices for 2020, were then included within the risk management system. Since then, the COVID-19 outbreak has prompted the addition of this as a new principal risk. A summary of the Group's principal risks are set out on pages 24 to 27.

The Committee has had oversight and contributed to the development of increased horizon scanning activity, facilitating a wider external facing discussion at the Committee in addition to the consideration of those risks identified as being current.

During the year to 31 December 2019 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 embedding of the risk management system and key reporting requirements;
- oversight of horizon scanning activity focusing on regulatory, social, economic and technological areas;
- quarterly complaints reviews;
- oversight of half-yearly credit risk reporting; and
- a review of business continuity planning across the Group.

Areas of focus in 2020
The key risk facing the Group in 2020 is the COVID-19 pandemic and the Committee is focused on supporting each of our business divisions to safeguard the health and safety of our customers, our staff and self-employed agents. In doing so, the Committee has also sought to ensure that each business mitigates, as far as possible, the impact of the pandemic on our operational and financial performance so as to avoid putting the Group's business at risk. The Committee intends to continue to improve and enhance the Company's risk management framework and horizon scanning activity during 2020. Key tasks include the implementation of additional functionality within the risk management system, enhancement of the Group risk management framework and further development of the Group's risk register.

Heather McGregor
Chair of the Risk Committee
25 June 2020

Membership and attendance

12 The Committee met on 12 occasions during the year ended 31 December 2019.

Director	Attendance and total number of meetings that the Director was entitled to attend
Heather McGregor (Chairman)	11/12
Niall Booker	12/12
Charles Gregson	12/12

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 Summary Table
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 2020
3. Consideration by the Committee of matters relating to the Directors' remuneration for 2019 and 2020
4. Group Chief Executive to employee pay ratio
5. Percentage change in Executive Director remuneration
6. Group Chief Executive to employee pay ratio
7. Single figure remuneration table: Non-Executive Directors – audited
8. Directors' shareholding and share interests
9. Shareholder voting

Part A: Annual Statement

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for NSF for 2019, my first as Chair of the Remuneration Committee (the 'Committee').

Business context and Committee decisions on remuneration

As noted in the Chairman's statement on pages 6 and 7 and in the Group Chief Executive's report on pages 12 to 17, 2019 was an eventful year for the Group. There were also a number of important strategic developments that took place during the year including the opening of a number of new branches, the consolidation of our guarantor loans operations into a single location and the proposed acquisition of Provident Financial plc.

As noted elsewhere in this Annual Report, each of the Company's three divisions performed well operationally and delivered solid growth in normalised operating profit. However, the macroeconomic uncertainty associated with the COVID-19 outbreak in 2020 has meant that the Board has already taken a number of steps including a 70% reduction in the bonus potential for Executive Directors in 2020, to help conserve cash within the Group so that it is well-placed to return to normal as soon as circumstances allow.

Although the Company is not presenting a new Remuneration Policy for approval in 2020, the Committee chose to adopt several areas of corporate governance best practice in light of the most recent updates to the Code. The adoption of these areas of best practice reflects the Committee's commitment to adhere to a much higher level of corporate governance than is required for a Company of our size and with a Standard Listing. The Group's major shareholders were consulted as part of a process to determine which elements of the Code would be adopted by the Committee. After having taken their views into account, the following amendments have been adopted by the Remuneration Committee:

- reduction in Executive pension contributions and commitment for contributions for new hires to be in line with the wider workforce as communicated to shareholders in October 2019;
- introduction of the ability for the Remuneration Committee to override formulaic outcomes of incentive arrangements; and
- introduction of a post-cessation shareholding requirement for Executive Directors as communicated to shareholders in October 2019.

Directorate Changes

Miles Cresswell-Turner stepped down from his role as CEO of Everyday Loans Group ('ELG') at the end of April 2019 and as an Executive Director of Non-Standard Finance plc on 21 October 2019 and received a payment of £287,000 in lieu of his notice. Miles was deemed to be 'good leaver' for purposes of his in-flight incentives and an agreement was reached in respect to his Founder Shares. Details of the payments Miles received for his loss of office and his Founder Shares agreement are outlined in the section 'Payments to past Directors or for loss of office' on page 108.

On 15 November 2019, it was announced that Nick Teunon, Group CFO would step down from the Board in 2020. On 30 March 2020 it was announced that Jono Gillespie would replace Nick Teunon as Group CFO on 1 April 2020. Nick Teunon left the Board on 30 April 2020 and received his salary and benefits up to the date of his departure, but received no further payments.

Incentives performance and outcomes

2019 annual bonus outcomes

The 2019 annual bonus for John van Kuffeler and Nick Teunon was based on a combination of Group financial and Group non-financial performance metrics. For 2019 the actual performance conditions and vesting are summarised below:

2019 annual bonus outturn

	Weighting (%)	Actual	Threshold (25% payable)	Target (75% payable)	Maximum (100% payable)	Outcome (% payable of element)	CEO Actual £	CFO Actual £
Adjusted profit	70%	Actual: £14.71m	Threshold: £16.76m	Target: £22.34m	Maximum: £25.13m	0%	£0	£0
Personal objectives	30%	n/a	n/a	n/a	n/a	85%	£84,941	£73,185
						Total	**£84,941**	**£73,185**

Miles Cresswell-Turner left the business in October 2019 but under the terms of his severance he was eligible to receive an annual bonus that was prorated for time served during the year. Miles was CEO of Everyday Loans until 30 April 2019 and so his bonus was structured differently to that for John and Nick. Whilst an element of Miles' bonus was based on the Group financial and non-financial metrics, the remainder was based on financial and non-financial metrics relating to Everyday Loans Group. The resulting outcome for Miles' bonus using this methodology was a different payout percentage to that for John and Nick and the Remuneration Committee felt that it did not reflect the overall performance of the business during the year. Therefore, operating within the terms of its remit, the Remuneration Committee utilised their authority to override formulaic outcomes and reduced Miles' payout so that it was in line with that for John and Nick. Miles' total 2019 annual bonus was £58,949.

2019 LTIP outcomes

During the year, the vesting period for the Everyday Loans Group LTI elapsed. Performance was assessed at the end of the financial year and there was no payout or vesting under the scheme.

Application of Remuneration Policy for 2020

Salary increases

Salaries for 2020 were set taking into account a number of considerations including the level of salary increases seen across the Company. As a result, Executive Directors will receive a 2.5% increase to their base salaries for 2020.

Pension and benefits

The maximum contribution to a personal pension scheme or cash in lieu will continue to equal to 10% of base salary for all existing Executive Directors. All benefits will be provided to the Executive Directors in line with the Directors' Remuneration Policy. However, following the adoption of a number of the provisions of the Code, new Executive Directors appointed to the Board will receive a maximum contribution to a personal pension scheme or cash in lieu equal to 8% of base salary. As a result, Jono Gillespie who joined the Board on 1 April 2020 will receive a contribution equal to 8% of base salary.

Annual bonus

Given the significant uncertainty regarding the ongoing COVID-19 pandemic and the desire to conserve cash within the Group, the Board has decided to remove 70% of the annual bonus potential for Executive Directors in 2020. This is one of the actions our Board has implemented to help mitigate the impact on our operational and financial performance and to avoid putting our business at risk.

Therefore for 2020, any annual bonus will carry a maximum potential of up to 30% of that prescribed under the Policy, subject to the achievement of non-financial measures. The non-financial measures for the year will once again comprise a blend of conduct and governance focused measures with a clear focus on the delivery of good customer outcomes. Additionally, this element of the bonus will also be subject to the Remuneration Committee's satisfaction regarding the Company's financial performance against the changing external environment. Therefore, the full 30% can only be achieved if all performance measures are satisfied and if the Remuneration Committee judge financial performance to be satisfactory in the circumstances faced.

This will mean that there will have been no payout under the annual bonus based on financial results for two consecutive years (2019 and 2020). Please see the annual bonus implementation section on page 106 for details of the performance conditions attached.

Looking forward to 2020

The Committee has already reduced the bonus potential in 2020 by removing the financial element of the annual bonus and it will continue to take into account the potential for unintended consequences by ensuring any bonus paid for the achievement of non-financial objectives remains appropriate in the context of the Company's overall financial performance. The Committee's overriding objective is to ensure that the Policy is operated fairly for all stakeholders. Aside from the decision on annual bonus, the Committee is intending to continue to operate the Policy in 2020 as it did in 2019; however, the Committee is mindful that it may need to exercise its discretion to depart from formulaic outcomes given the uncertain macroeconomic environment.

Work will also begin work on a new Remuneration Policy which will need to be presented to shareholders for renewal at our AGM in 2021. The terms of this policy are to be decided in context of both the Company strategy and the wider macroeconomic climate. One aspect that the policy will likely include is the introduction of a new long-term incentive plan which will address the motivation and retention risks from the potential lack of vesting of existing arrangements. Shareholders will be consulted on the Committee's plans throughout this process to ensure the new policy is fair to all stakeholders.

Wider workforce considerations

The Remuneration Committee always takes into account the levels and structure of the wider workforce remuneration as well as other conditions when making decisions on executive pay. We believe that employees throughout the Company should be able to share in the success of the Company and to help facilitate this, we continue to operate an all-employee Sharesave Plan ('SAYE') through which employees can set aside a portion of their salary in exchange for shares at a discount to the prevailing market price.

Mindful of the fact that the recent share price performance means that the current SAYE entitles participants to purchase NSF shares at a significant premium to the current share price, the Committee will consider whether an additional SAYE can be put in place for employees that will prove more attractive than the current SAYE.

In 2020, the Company will continue to seek to improve our engagement with our employees by expanding our employee forum meetings across the business. I am the Non-Executive Director designated to gather and report on employee views and will be attending some of these meetings personally to hear first-hand the mood and experience of the Group's employees.

Format of this report and matters to be approved at our Annual General Meeting in May 2020

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

Part B: Our remuneration at a glance (page 97).

Part C: Directors' Remuneration Policy Summary (pages 98 to 106).

Part D: Annual Report on Remuneration providing details of the payments made to Directors in 2019, as well as other statutory disclosures (pages 106 to 113) and which complies with the disclosure requirements of the Listing Rules of the UK Listing Authority and the UK 2018 Corporate Governance Code.

At the General Meeting to approve our 2019 results, to be held on 28 July 2020, a resolution to approve the Annual Report on Remuneration will be put to shareholders for approval. I ask for your support on the relevant resolution (number 2).

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

On behalf of the Remuneration Committee and Board.

Heather McGregor
Chairman of the Remuneration Committee
25 June 2020

Part B: Our remuneration at a glance

We summarise below both the key decisions taken by the Committee in relation to base pay and incentives for the Executives in respect of 2019 and how key elements of the Remuneration Policy will be implemented for 2020.

Nick Teunon left the Company on 30 April 2020. Nick was paid his salary and benefits up to his departure date and will receive no further payments. Jono Gillespie, the Company's Deputy Chief Financial Officer was promoted to Group Chief Financial Officer on 1 April 2020. Jono's remuneration for 2020 is in line with our Remuneration Policy as outlined in this report. Jono's annualised starting base salary is £240,000 and he receives a pension contribution of 8%, in line with that of our wider workforce. Jono is also eligible to receive an annual bonus prorated for his time served as Group CFO during the year.

2020 Executive Director Remuneration Policy

	John van Kuffeler	Jono Gillespie	Nick Teunon
Base salary	£341,500	£240,000	£294,200
Annual bonus			
Maximum:	100% of salary	100% of salary	Nil
On-target:	75% of maximum	75% of maximum	Nil
Threshold:	25% of maximum	25% of maximum	Nil
Operation for 2020	• Typically, performance measures are weighted as to 70% financial (normalised profit before tax) and 30% non-financial (including both conduct-based measures and governance-based measures). Conduct-based measures 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. Governance-based measures seek to reward the installing of strong governance processes and behaviours such as the embedding of internal controls and compliance with the SMCR. • However, given the uncertainty stemming from the COVID-19 pandemic and the need to conserve cash within the Group, the Board has made the decision to remove the 70% of the annual bonus based on financial performance measures. As such the maximum opportunity under the 2020 annual bonus will be 30% of base salary with 100% of the bonus being subject to non-financial measures. The Remuneration Committee will however still take the Company's financial performance into account in determining any payout under the remaining 30% of the bonus. • Threshold vesting will be set at 25% of maximum, on-target vesting at 75% and maximum vesting at 100%, with vesting on a sliding scale between these points. • Bonus is payable in cash following the end of the financial year. • Additional Remuneration Committee powers of discretion to adjust formulaic outcomes to reflect performance.		
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	Jono Gillespie	Nick Teunon
Pension	10% of salary	8% of salary	10% of salary
Shareholding requirement	100% of salary over five years	100% of salary over five years	100% of salary over five years
Post-cessation shareholding requirement	100% of shareholding requirement for one-year post-cessation, 50% of shareholding requirement for two years post-cessation. Shareholding requirement only applies to share awards granted under long-term incentive plans from 2020 onwards	100% of shareholding requirement for one-year post-cessation, 50% of shareholding requirement for two years post-cessation. Shareholding requirement only applies to share awards granted under long-term incentive plans from 2020 onwards	n/a

2019 year-end decisions made:

	John van Kuffeler	Nick Teunon
2020 salary review	2.5% increase to £341,500 per annum from 1 January 2020	2.5% increase to £294,200 per annum from 1 January 2020
2019 bonus outcome • Financial (maximum 70%) • Non-financial (maximum 30%)	Financial: 0% Non-financial: 25.5% Total: 25.5%	Financial: 0% Non-financial: 25.5% Total: 25.5%
Value	£84,941	£73,185
Percentage of salary/maximum	25.5% of salary	25.5% of salary

Part C: Directors' Remuneration Policy Summary

This section of the report contains details of the Directors' Remuneration Policy (the '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 and is displayed on the Company's website, in the Investors section.

In 2019, following consultation with shareholders, the Remuneration Committee chose to adopt several elements of corporate governance best practice early and ahead of the Policy renewal due in 2021. This has been done to ensure the Company's alignment with the latest UK Corporate Governance Code and, where possible and practical, to demonstrate the Committee's commitment to good governance. The elements that were adopted in 2019 are:

- commitment for Executive pension contributions for new hires to be in line with the wider workforce as communicated to shareholders in October 2019;
- introduction of the ability for the Remuneration Committee to override formulaic outcomes of incentive arrangements; and
- introduction of a post-cessation shareholding requirement for Executive Directors as communicated to shareholders in October 2019.

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 2020 are disclosed on page 108.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Benefits To provide competitive benefits and to attract and retain high-calibre employees.	Reviewed periodically to ensure benefits remain market competitive. Benefits currently include: • Company car or for Company to provide car benefit in lieu of salary • 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, usually following the signing of the Annual Report and Accounts, in 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 reasons 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. Attainment of performance between threshold and maximum levels will vest on a straight-line basis between these two points.	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 (70%), which may include those related to normalised profit before tax. Non-financial measures (30%) will include both conduct-based measures and governance-based measures. Conduct-based measures include ensuring delivery of good customer outcomes through appropriate affordability assessments and appropriate treatment of vulnerable customers together with appropriate collections, arrears and forbearance practices. Governance-based measures aim to install robust processes with respect to control and compliance such as compliance with certification regimes and embedding monitoring of control processes. The Committee has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year as well as formulaic outcome of awards to reflect actual performance of the individual and the Company. 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
Non-Standard Finance long-term incentive ('LTI') for Executive Directors and senior management. The LTI supports 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 ten 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 ten years. Any awards earned in excess of either cap will be satisfied through market purchase of shares by the Company. The Non-Standard Finance LTI was a one-off award and no further awards will be made under this scheme.	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 an initial market capitalisation of the Company of £1.10 per share.
Founder Shares awarded to Executive Directors on IPO[1].	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. The Founder Shares award was a one-off award and no further awards will be made under this scheme.	Under the terms of the Founder Shares: A. the Group must make acquisitions with a combined value of at least £50m; 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). Under the terms of Founder Shares deed of grant, the departure of Miles Cresswell-Turner meant that the performance condition of the award was satisfied and triggered a vesting of the Founder Shares awards. After consultations with the Group's major shareholders and discussions with the remaining Founder Share participants, it was agreed that whilst the award had vested it could not be exercised until, either the Company's share price reaches £1.10 within a new five-year performance period, or on a change of control. Please see page 113 for more details.

1 Please note that the Founder Shares award is not considered remuneration but has been included in the policy table for completeness and for consistency with prior years.

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 Everyday Loans. 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. The Everyday Loans group LTI was a one-off award and no further awards will be made under this scheme.	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 was tested against the hurdle at 31 December 2019 please see page 106 for the performance achieved. For any vested options, 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.
Post-cessation shareholding To ensure Executives retain a level of alignment with shareholder for the period immediately following their cessation of employment.	For share awards granted from 2020 onwards for Executive Directors, a minimum level of shares must be retained following their cessation of employment.	Executives will be required to hold: • 100% of the shareholding requirement for the first year post-cessation • 50% of the shareholding requirement for the second year post-cessation.	Not applicable.

Discretion with the Directors' Remuneration Policy

The Committee has expanded its powers of discretion to include the ability to adjust remuneration outcomes upwards or downwards to ensure that they reflect the shareholder experience. This means that it now has the power to override formulaic incentive outcomes in light of the overall performance of the Company.

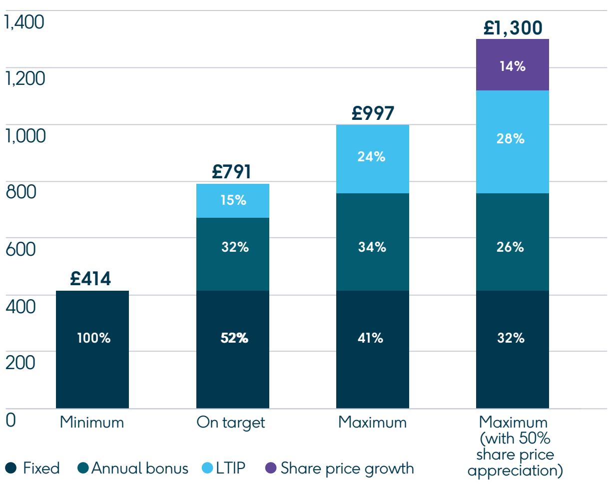
The Committee also maintains its previous powers of discretion being the power to exercise operational and administrative discretion under relevant plan rules approved by shareholders as set out in those rules and to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

2. Illustrations of application of Remuneration Policy

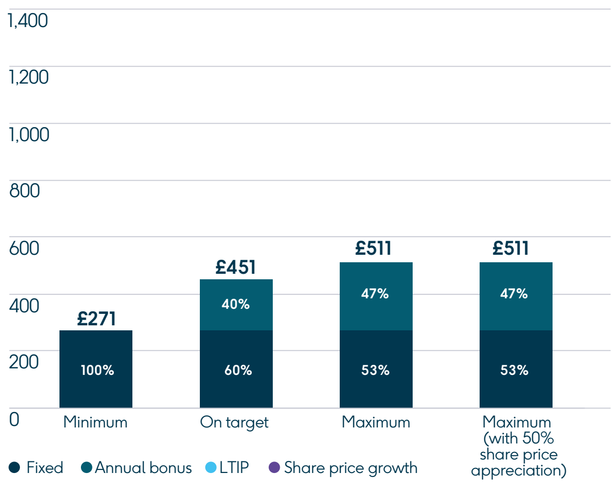
The charts below seek to demonstrate how pay varies with performance for the Executive Directors in the coming year, based on the stated Remuneration Policy. The charts show an estimate of the remuneration that could be received by Executives Directors under the Policy set out in this report. Each of 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 chart indicates that for John van Kuffeler a significant proportion of both target and maximum pay is performance-related. Please note that Jono Gillespie does not participate in the NSF LTI. As Nick Teunon left the Board on 30 April 2020 and is no longer eligible to receive further payments under the LTIP or bonus scheme, illustrations for Nick are not included.

John van Kuffeler (£000)



Jono Gillespie (£000)



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

Element	Minimum	Target	Maximum	Maximum including 50% share price increase
Fixed elements	Base salary at 1 January 2020 Estimated value of benefits provided under the Policy Pension – 10% of salary for John van Kuffeler, 8% for Jono Gillespie			
Annual bonus	Nil	75% of maximum	100% of salary	100% of salary
NSF LTI	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

Awards made under the NSF LTI were 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. Whilst the Remuneration Policy allows for 100% of salary to be awarded as bonus, it should be noted that the Remuneration Committee has exercised its discretion for 2020 and limited this potential to 30%.

The IFRS 2 value is considered to be a suitable basis for estimating the potential payouts of the NSF LTI.

3. Approach to recruitment and promotions

The Company will pay total remuneration for new Executive Directors to attract appropriately skilled and experienced individuals, but that 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.
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 current Executive Directors.

	Date of contract	Notice period
John van Kuffeler	19 February 2015	12 months (Executive and Company)
Nick Teunon	19 February 2015	
Jono Gillespie	1 April 2020	

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 the 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 Everyday Loans 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.

During 2019, the Committee had an ongoing dialogue with shareholders across a wide variety of issues:

- During the prospective takeover of Provident, the Committee had regular contact with key shareholders including the discussion of a proposed new Remuneration Policy as the Company would have obtained a premium listing on the London Stock Exchange and would require full compliance with the UK Corporate Governance Code.
- The Committee approached shareholders to discuss the Founder Share Scheme and agree new terms for the vesting of awards for the remaining participants, following the departure of Miles Cresswell-Turner. A revised approach was agreed.
- Towards the end of 2019, the Committee sent a shareholder letter outlining the proposed adjustments to the Remuneration Policy in order to ensure alignment with the latest 2018 UK Corporate Governance Code. This consultation included possible changes to alignment of Executive pensions to that of the wider workforce, implementation of a post-cessation shareholding requirement and the extend of the Remuneration Committee's powers of discretion with respect to incentives.

Over the course of the next year, the Committee intends to continue appropriate levels of communication with key investors in order to facilitate more active shareholder engagement around remuneration-related issues. The outcome of these discussions will be reported in the 2020 Directors' Remuneration Report.

Engaging with employees

NSF is committed to creating an inclusive working environment and to reward all employees throughout the organisation in a fair and appropriate manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. In June 2018, the FRC provided an updated version of the 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 made the commitment to ensure that the approach to remuneration for all employees, including within subsidiary companies, will be considered when reviewing the Remuneration Policy.

In 2018, the Board appointed Heather McGregor as the Non-Executive Director with responsibility for workforce engagement. During 2019, the approach for engagement with the workforce has been considered and drawn together, enhancing existing mechanisms, with a view to full implementation during 2020. During 2019, the Company continued to operate its employee engagement surveys in assessing the views of the Group's workforce and the conditions to which they are subject. Heather had oversight of this survey and summaries of the findings were shared with the Board and considered in the context of key decisions, including those on remuneration.

In 2020, it is planned that the existing employee forums for certain parts of the business will be expanded across the Company. These quarterly forums will be attended periodically by Heather and cover all aspect of employee interests including culture, performance, business improvements and communications. In addition, Heather will continue to perform site visits and attend additional meetings and functions across all areas of the Company on an ad hoc basis, giving her valuable insight into the day-to-day running of the Company.

All-employee remuneration

As part of the Company's commitments to reward all employees in a fair and appropriate manner, the Remuneration Committee makes every effort to take into account wider employee pay in setting executive remuneration. This is achieved through information provided to the Committee detailing the levels of remuneration throughout the Company. As a result of this process:

- salary increases for Executive Directors were set at 2.5% in the context of that agreed for the wider workforce, including at subsidiary level, so as to ensure consistency across the Group
- a bonus scheme is now available to the majority of the Company's employees
- the Group will continue to operate the Sharesave Plan
- the pension scheme arrangements for new Executive Directors have been brought in line with that of the wider workforce at 8% of salary.

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 112. 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/ reappointment
Charles Gregson	30 April 2018
Heather McGregor	30 April 2018
Niall Booker	9 May 2020

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 2019. Disclosures in this report have been prepared in accordance with the provisions of the Companies Act 2006 and the Regulations.

As outlined in the corporate governance report (page 81), given the fact that the 2019 audit took longer to complete than expected, it has been necessary to apply to Companies House for an extension to the filing date of the Group's 2019 audited accounts. As the anticipated date for completion of the audited accounts did not allow a clear 21 days' notice prior to the required AGM date, the Company is required to hold a separate general meeting to approve its 2019 audited accounts and this has been scheduled to take place at 8.30am on 28 July 2020 at 2 St James's Street, London, SW1A 1EF. Given the COVID-19 outbreak, shareholders are advised not to attend the meeting and to submit their votes in advance by proxy card so as to reduce the number of attendees in person.

An advisory resolution to approve this report and the annual statement will be put to shareholders at the general meeting.

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	Total fixed remuneration £000	Total variable remuneration £000
John van Kuffeler	**2019**	**333**	**37**	**85**	**–**	**33**	**–**	**488**	**403**	**85**
	2018	**325**	**38**	**221**	**–**	**30**	**–**	**614**	**393**	**221**
Nick Teunon	**2019**	**287**	**16**	**73**	**6**	**29**	**–**	**411**	**332**	**79**
	2018	280	17	191	6	26	–	520	323	197
Miles Cresswell-Turner	**2019**[4]	**232**	**15**	**59**	**–**	**23**	**–**	**329**	**270**	**59**
	2018	280	19	222	6	25	–	552	324	228

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 Long-term incentives were the grant of options at a 20% discount under the SAYE plan.
4. Miles Cresswell-Turner stepped down as Executive Director on 21 October 2019, payments received regarding loss of office are noted on page 108.

Annual bonus outcomes for the period ended 31 December 2019 – audited

For 2019, the Executive Directors had a maximum annual bonus opportunity of 100% of salary based on the achievement of financial and non-financial targets. The annual bonus table below provides information on the vesting outcomes and resulting bonus payments.

For Miles Cresswell-Turner, the Remuneration Committee exercised its discretion to reduce the formulaic outcome for his bonus to bring it in line with that for the other Executive Directors. The Committee chose to exercise its discretion on this issue to ensure that the payout reflected the overall performance of the Company during the year. Miles Cresswell-Turner's bonus was also prorated for the time served to his departure on 21 October 2019.

	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	0.0%	70.0%	0.0%	0.0%	70.0%	0.0%	Remuneration Committee chose to exercise discretion to adjust the bonus payout to be in line with the other Executive Directors		
Group non-financial	85.0%	30.0%	25.5%	85.0%	30.0%	25.5%			
ELG financial									
ELG non-financial									
Total bonus payout (% maximum)		**25.5%**			**25.5%**			**25.5%**	

The financial and non-financial targets for John van Kuffeler and Nick Teunon's 2019 annual bonus and the extent to which they were met are as follows:

The financial metric equates to 70% of the maximum potential bonus for John van Kuffeler and Nick Teunon. The target outcome for this metric was £22.34m 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 £14.71m, being 65.9% of target and below the 75% threshold for payment of the minimum 25% of the financial element of the bonus. Therefore, there was no vesting under the Group financial element of the annual bonus award.

The non-financial element for John van Kuffeler and Nick Teunon was based on eight individual components representing 30% of maximum bonus in total. These non-financial targets, which are described below, were met as follows:

Metric	Percentage of total annual bonus	Vesting (% of total annual bonus award)	Vesting (% of total annual bonus award)
For clear 'Three lines of defence' models to be operating appropriately across the Group.	5%	60%	3%
To support and enable clear focus upon compliance and control across all divisions, demonstrated through the timely completion of KPMG Internal Audit points and clear engagement with the 2019 audit programme, resulting in no unsatisfactory audit reports during 2019	4%	100%	4%
The embedding of monitoring of strong internal controls, assessed through the engagement with and timely completion of Corporate Policy Attestation and Senior Accounting Officer sign off requirements from operating entities.	3%	83%	2.5%
For the Group to be fully compliant with the SMCR, with clear definition of roles within the Group context.	3%	100%	3%
Clear oversight of the delivery of good customer outcomes by each division as measured by a good customer outcomes dashboard and the provision of trend analysis (including oversight of customer complaints).	4%	100%	4%
Progress with plans agreed to bring 'out of appetite' risks back within appetite. Ending the year with all 'critical' or 'high' inherent risks at Group level either appropriately risk accepted or within appetite.	4%	75%	3%
For clear succession plans to be in place for each Executive Director and senior management within each operating division and at plc level. These should include internal development plans where necessary and external options being assessed on a regular basis. These should be reviewed and approved by the Nomination Committee.	3%	100%	3%
To ensure that appropriate funding for the Group with improved cost of funding compared to the current arrangement is in place, whilst achieving a minimum cash/undrawn headroom of £25m as at 31 December 2019 after accommodating a dividend payment policy of 50% of post-tax profit before fair value adjustments, amortisation of acquired intangibles and exceptional items. This should include the successful completion of the proposed securitisation project leveraging the Everyday Loans and Guarantor Loans Division loan books.	4%	75%	3%

As a result, the non-financial element was met as to 25.5% of the maximum annual bonus opportunity (85% achievement of the maximum for the non-financial element).

As such, the total payout for all Executive Directors was 25.5% of the total maximum annual bonus opportunity. The Remuneration Committee has therefore determined that the bonuses awarded to the Executive Directors are £84,941 for John van Kuffeler, £73,185 for Nick Teunon and £58,949 for Miles Cresswell-Turner. All bonuses are paid in cash. No part of the bonus will be subject to deferral.

Long-Term Incentive awards vesting in 2019

No awards under the NSF LTI or the Everyday Loans LTI vested in 2019.

Long-Term Incentive awards made in 2019

There were no awards under the LTI made in 2019. 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 98.

Payments to past Directors or for loss of office – audited

In October 2019, Miles Cresswell-Turner stepped down from the Board and left the Company, he was designated a 'good leaver' by the Committee for purposes of his incentives. During the year, Miles Cresswell-Turner received a payment of £287,000 in lieu of his basic salary for a 12-month notice period. As a 'good leaver' Miles is entitled to a pro rata proportion of any annual bonus awarded and is also eligible to remain in both the NSF and ELG LTI schemes as outlined in the Remuneration Policy.

In addition, 25 of Miles' Founder Shares also vested on his cessation of employment. As part of his settlement agreement, seven of Miles' Founder Shares were exercisable immediately with the remainder subject to a further performance condition of the Company's share price reaching £1.10 within a five-year period, or on a change of control. Miles therefore exercised the seven shares and received a consideration of 387,740 Non-Standard Finance plc shares (approximate value £150,000).

The Board do not consider the Founder Shares to be remuneration.

2. Implementation of Remuneration Policy for the Executive Directors for 2020

In November 2019, it was announced that Nick Teunon would leave the Company in 2020. Nick left the Company on 30 April 2020 and was eligible to receive his contractual entitlements up to the date of his departure. No additional payments have been, or will be made in respect of 2020.

Base salary

In setting salary levels for the 2020 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 2020 and the relative increases are set out below. Jono Gillespie, the Company's Deputy Chief Financial Officer was promoted to Group Chief Financial Officer on 1 April 2020. Jono's remuneration for 2020 will be in line with our Remuneration Policy as outlined in this report. Jono's annualised starting base salary is £240,000 and he receives a pension contribution of 8% of salary, in line with that of our wider workforce. Jono is also eligible to receive benefits and an annual bonus prorated for his time served as Group CFO during the year.

	Base salary £000		
	2020	2019	% change
John van Kuffeler	**£342**	£333	2.5%
Jono Gillespie	**£240**	n/a	n/a
Nick Teunon	**£294**	£287	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 existing Executive Directors. As outlined previously, new appointments receive a pension contribution in line with the wider workforce at the time of appointment, currently 8% of salary. 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

In light of the current uncertainty created by the COVID-19 crisis the Board believes it is important to conserve cash within the Group. Therefore for 2020 the Executive Directors will receive no bonus in respect of the financial measures but are eligible to receive up to 30% of the bonus potential that is based on non-financial measures. The non-financial measures for the year will once again comprise a blend of conduct and governance focused measures. Conduct-based measures are designed to ensure delivery of good customer outcomes through appropriate affordability assessments and appropriate treatment of vulnerable customers together with appropriate collections, arrears and forbearance practices. Governance-based measures aim to install robust processes with respect to control and compliance such as compliance with certification regimes and embedding monitoring of control processes.

The non-financial element of the bonus will also be subject to the Committee's satisfaction of the Company's financial performance against the changing external environment. As such the full 30% can only be achieved if all performance measures are satisfied and the Committee deems that the Group's overall financial performance to be satisfactory in the circumstances faced.

The maximum and target bonus potentials for 2020 are:

	Maximum bonus % of salary	On-target bonus % of maximum[1]	Threshold bonus % of maximum[1]
John van Kuffeler	30%	n/a	n/a
Jono Gillespie	30%	n/a	n/a
Nick Teunon	n/a	n/a	n/a

1 Please note as the Board has chosen to remove the financial element of the 2020 annual bonus threshold and on-target levels are not applicable in 2020.

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.

3. Consideration by the Committee of matters relating to the Directors' remuneration for 2019 and 2020
The Committee seeks to comply with the Code as much as possible and, as explained in the corporate governance report, during the year, the Chairman Charles Gregson stepped down as the Chair of the Remuneration Committee though he remains a member of the Committee. 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 2019	Independent	Meetings attended	Attendance
Charles Gregson	No	12/12	100%
Heather McGregor	Yes	11/12	92%
Niall Booker	Yes	12/12	100%

During the year, in addition to the five scheduled Committee meetings, there were seven additional Remuneration Committee meetings as a result of the offer to acquire Provident. With the exception of one such additional meeting missed by Heather McGregor, all Committee members attended all scheduled Remuneration Committee meetings. The Group Chief Executive and the Chief Financial Officer attended meetings at the invitation of the Committee, but were not present when their own remuneration was being discussed.

The Committee received external advice in 2019 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 £82,500. 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 12 Committee meetings. The increased number of meetings was largely due to the offer to acquire Provident, matters covered at these meetings are detailed below:

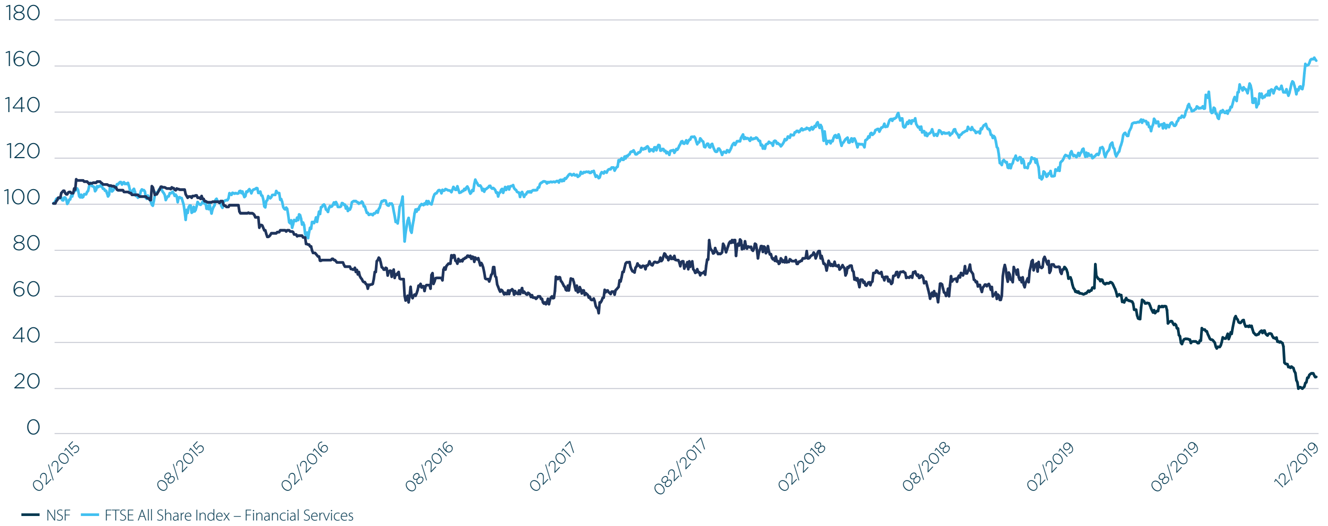
- Discussion and approval of remuneration for Executive Directors in 2020
- Approval of Executive Directors' annual bonus performance measures and targets for 2020
- Discussion regarding impact of the offer to acquire Provident on all elements of remuneration, including Founder Shares
- Approval of 2018 Executive Directors' annual bonus outcomes for 2018
- Review of progress of 2019 annual bonus performance
- Review of remuneration levels taking into consideration external market benchmarking for both Executive and Non-Executive Directors
- Treatment of awards and settlement for the departure of Miles Cresswell-Turner
- Treatment of Founder Shares in light of departure of Miles Cresswell-Turner
- Amendments to Founder Shares, including consultations with key stakeholders

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 2019.

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 competitors in 2017, 2018 and 2019; the lapsing of the Group's offer to acquire Provident on 5 June 2019; and concerns over future market and regulatory conditions in the UK consumer finance segment.

Group Chief Executive	**2019**	2018	2017	2016	2015
Single figure of total remuneration (£000)	**488**	614	498	351	473
Bonus payout (% maximum)	**25.5%**	68.1%	50.5%	0%	100%
Long-term incentive vesting rates (% maximum)	**n/a**	n/a	n/a	n/a	n/a

5. Percentage change in Director remuneration

The table below compares the percentage increase in the Directors' pay on an annual basis with the wider employee population (for those Directors in office at the year end). The Company considers the Group's employees excluding the Executive Directors, to be an appropriate comparator group. In line with corporate governance best practice, the Company now shows the changes in pay not only for the Group Chief Executive but for all Directors. Additionally, starting this year we now also show historical changes in remuneration, this disclosure will be built upon in future years to show the rolling changes over five years.

	Base salary			Benefits			Annual bonus		
% change from 2018 to 2019	2019	2018	2019 % Difference	2019	2018	2019 % Difference	2019	2018	2019 % Difference
Group Chief Executive (John van Kuffeler)	333	325	2.5%	37	38	-2.7%	85	221	-61.5%
Group Chief Financial Officer (Nick Teunon)	287	280	2.5%	16	17	-5.9%	73	191	-61.8%
Non-Executive Chairman (Charles Gregson)	125	125	0%	–	–	–	–	–	–
Non-Executive Director (Heather McGregor)	75	75	0%	–	–	–	–	–	–
Non-Executive Director (Niall Booker)	75	75	0%	–	–	–	–	–	–
Average employee pay	30	29	3.4%	7	7	0%	3	3	0%

6. Group Chief Executive to employee pay ratio

In line with the Director's Remuneration Reporting regulations we also present the ratio of the Group Chief Executive's pay against the pay of an employee at the lower quartile, median and upper quartile of the Company's UK employees.

There are three methodologies outlined in the regulations on how this ratio is calculated:

- Option A – calculate actual pay and benefits for all UK employees;
- Option B – leveraging gender pay gap reporting data (hourly pay metric); and
- Option C – other approach – to be defined and explained by the Company.

The Company has decided to use Option A as this would represent the most comprehensive approach and give the most accurate statistics. The data for employee pay was taken as at 31 December 2019.

The current Group Chief Executive to employee pay ratio is as below. These ratios are relatively low in comparison to the sector in which the Company operates and across wider listed companies. We note that the ratios for 2019 are low given the relatively low Annual Bonus payout and that no vesting under any long-term incentives occurred during the year. As described in section 5, the Company is committed to creating an inclusive working environment and to reward our employees throughout the organisation in a fair manner. The Company therefore believes that the ratios are consistent with the pay, reward and progressions policies of the UK workforce taken as a whole, This is the first year of reporting and we will continue to monitor the trends in the ratio over future years.

Financial year	25th percentile employee pay[1]	50th percentile employee pay[1]	75th percentile employee pay[1]
2019 Group Chief Executive: employee pay	22:1	14:1	11:1

1 Total pay for 25th percentile employee is £22,000, 50th percentile employee is £34,000, and 75th percentile employee is £44,000.

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	**2019**	2018	% change
Employee spend	**£43.2m**	£38.7m	11.6%
Distributions to shareholders (including share buy-backs)	**£8.4m**	£9.3m	-9.7%

Note

Distributions to shareholders in 2019 includes £nil (2018: £2.1m) in share buybacks.

Directors' remuneration report continued

for the year ended 31 December 2019

7. 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	**2019**	**125**	**–**	**125**
	2018	125	–	125
Heather McGregor	**2019**	**75**	**8**	**75**
	2018	75	12	75
Niall Booker	**2019**	**75**	**–**	**75**
	2018	75	–	75

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

Fees to be provided in 2020 to the Non-Executive Directors

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

		2020	2019	% change
Chairman's fee	Charles Gregson[1]	**125**	125	–
Independent Non-Executive Director fee	Heather McGregor	**75**	75	–
	Niall Booker	**75**	75	–

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

8. Directors' shareholding and share interests

Shareholding and other interests at 31 December 2019 – 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 Dec 2019					Interest in Founder Shares[4]		
	Number of beneficially owned shares[1]	% of salary held	Shareholding requirement met[2]	Options held subject to service[3]	Total number of shares/ options	Subject to conditions	Vested but unexercised	Total at 31 Dec 2019
John van Kuffeler	2,114,474	132%	Yes	–	2,114,474	–	30	30
Nick Teunon	127,980	9%	No	36,348	164,328	–	25	25
Miles Cresswell-Turner	1,221,520	91%	Yes	–	1,221,520	–	18	18
Charles Gregson	372,677	–	–	–	372,677		10	10
Heather McGregor	138,700	–	–	–	138,700	–	–	–
Niall Booker	426,700	–	–	–	426,700	–	–	–
Total	**4,402,051**			**36,348**	**4,438,399**	–	**83**	**83**

	Shares subject to performance conditions[5]	Options subject to performance conditions[5]	Vested[5]	Total at 31 Dec 2019[5]
John van Kuffeler	–	375	–	375
Nick Teunon	–	250	–	250
Miles Cresswell-Turner	250	–	–	250
Charles Gregson	–	–	–	–
Heather McGregor	–	–	–	–
Niall Booker	–	–	–	–
Total	–	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 (21.3p at 31 December 2019) and base salaries at 1 January 2020.
3 The options held subject to service were granted under the SAYE plan.
4 No scheme interests were awarded during the year (2018: 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 2021 and will be based on the growth in value of NSF above the share price hurdle of £1.10.

Charles Gregson continues to receive 50% of his quarterly Chairmanship fees in the form of NSF shares. Since 31 December 2019, Charles received 37,685 shares under this arrangement on 3 January 2020 relating to his time served in 2019.

Founder Shares

During the course of 2019, a change of control provision was triggered on the departure of Miles Cresswell-Turner and all Founder Shares vested in full. However, following discussions with the award holders, management team and shareholders, it was agreed that the Founder Shares would be subject to a further performance condition under which the Company's share price must reach £1.10 within five years before holders will exercise their option, or on a change of control.

However, as Miles Cresswell-Turner was departing the Company it was agreed that seven of his 25 Founder Shares (28% of his Founder Shares) would not be subject to these new performance conditions and he exercised his option over these shares.

The consideration in exchange for Miles Cresswell-Turner exercising the options on these seven shares was 387,740 Non-Standard Finance plc shares (value of approximately £150,000). The balance of his remaining 18 Founder Shares will be subject to the new performance condition.

Dilution

The Company funds its share incentives through a combination of new issue and market purchased shares. The Company monitors the levels of share grants and the impact of these on the ongoing requirement for shares. In accordance with guidelines set out by the Investment Association ('IA') the Company can issue a maximum of 10% of its issued share capital in a rolling ten-year period to employees under all its share plans and can issue a maximum of 5% of its issued share capital in a rolling ten-year period under executive (discretionary) share plans.

Non-Executive positions held by Executive Directors

John van Kuffeler retained fees of £48,333 during the year from his Non-Executive position at Paratus AMC Limited.

9. Shareholding voting

The table below shows the binding vote approving the previous Directors' Remuneration Policy and the advisory vote to approve the 2018 Annual Report on Remuneration at the AGM on 21 May 2019.

	Votes for	%	Votes against	%	Votes withheld
2018 Annual Report on Remuneration	272,471,946	97.01	8,400,778	2.99	0

By order of the Board.

Heather McGregor
Chairman of the Remuneration Committee
25 June 2020

Directors' report
for the year ended 31 December 2019

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 2019. Both the Strategic Report on pages 8 to 59 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 8 to 59 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 24 to 27 of the Strategic Report.

Trading results and dividends
The Group's consolidated loss after taxation for the financial year was £76,308,000 (2018: £1,679,000).

An interim dividend of 0.7p per share was paid to shareholders on 17 October 2019. On 26 March 2020, the Board announced its decision to not recommend or pay a final dividend in respect of the year ended 31 December 2019.

Despite the increase in normalised operating profit, the significant decline in market multiples across the sector has required an impairment to the goodwill asset values of all three divisions. Whilst non-cash in nature, together with the amortisation of acquired intangibles (also non-cash in nature) and other exceptional items, these charges have meant that the Company no longer has any distributable reserves and so, for the time-being, is unable to pay cash dividends. To address this, the Board is committed to completing a process to create sufficient distributable reserves so that, if appropriate, the Company can resume the payment of cash dividends to shareholders.

Future business developments
Information on the Company and its subsidiaries' future developments can be found in the Chairman's Statement on pages 6 and 7, the Group Chief Executive's report on pages 12 to 17 and the 2019 financial review and divisional overview on pages 28 to 45.

Share capital
As at 31 December 2019 the share capital of the Company consisted of 312,437,422 Ordinary Shares of £0.05 each (all of which were in issue and no shares held in treasury) and 93 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.

In October 2019, Miles Cresswell-Turner was removed from the Board and as a result, the Founder Shares in the Company vested. While none of the other holders of Founder Shares exercised their right, Miles Cresswell-Turner exercised his right that NSF purchase seven of his Founder Shares for a consideration, in accordance with their terms, of the issuance of 387,740 new NSF Ordinary Shares. Miles and the other Founder Shareholders all agreed to defer the exercise of the remaining Founder Shares, subject to certain conditions and a vesting period, or on a change of control. Further details on the Founder Shares can be found in note 29 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.

During 2019, the Company requested the reduction of the Company's share capital and the reduction of the amount standing to the credit of the Company's share premium account (the 'Capital Reductions', as further described, respectively, in the notice of the 2019 AGM and in the Company's notice of General Meeting (the 'GM Notice')).

The Capital Reductions were, respectively, approved by shareholders of the Company on 21 May 2019 at the 2019 AGM and on 8 July 2019 at the General Meeting of the Company.

The order of the High Court of Justice in England and Wales (the 'Court') and a statement of capital approved by the Court were registered with the Registrar of Companies and, accordingly, the Capital Reductions became effective on 31 July 2019.

As a result of the Capital Reductions: (i) 5,070,234 Ordinary Shares of the Company that were purportedly repurchased by the Company between 2017 and 2019 were cancelled; and (ii) £75,000,000 of the amount standing to the credit of the Company's share premium account was cancelled.

Further details on the Company's share capital can be found in note 27 to the financial statements.

Substantial shareholdings
The Company has been notified in accordance with the Disclosure and Transparency Rules DTR-5 that as at 29 May 2020 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 30 May to 24 June 2020 (being a date not more than one month prior to the date of the Company's Notice of Annual General Meeting).

Alchemy Special Opportunities LLP	29.95%
Aberforth Partners LLP	17.94%
Marathon Asset Management LLP	11.08%
N Utley	7.00%
Hargreaves Lansdown Asset Management	4.95%
Basswood Capital Management LLC	2.90%
West Yorkshire Pension Fund	2.68%
Quilter Cheviot Asset Management	2.38%
Toscafund	2.21%

In accordance with the Disclosure and Transparency Rules DTR-5 as at 31 December 2019 the following investors had a substantial interest in the issued Ordinary Share capital.

Alchemy Special Opportunities LLP	29.95%
Aberforth Partners LLP	17.64%
Marathon Asset Management LLP	11.26%
Woodford Investment Management	4.65%
Societe Generale S.A.	3.36%
Toscafund Asset Management LLP	2.88%
West Yorkshire Pension Fund	2.68%
Hargreaves Lansdown Asset Management	2.41%
Quilter Cheviot Asset Management	2.04%

The Directors' beneficial interests in the allotted shares of the Company as at 31 December 2019 are outlined below:

	Number of Ordinary Shares held
John van Kuffeler	2,114,474
Nick Teunon	127,980
Charles Gregson	372,677
Heather McGregor	138,700
Niall Booker	426,700

As granted by shareholders at the 2019 AGM, the Directors currently have the power to issue and buy back the Company's shares. The Board is seeking to renew these powers at the forthcoming 2020 AGM.

In accordance with the Group's Remuneration Policy approved by shareholders on 14 May 2018, over the course of the year, the Company allocated funds for the immediate purchase of Ordinary Shares by Mr Gregson to satisfy 50% of the post-tax fees due with respect to his role as Chairman. This amounted to the purchase of 61,633 Ordinary Shares at a total cost of £25,444 (excluding dealing costs). Funds to purchase shares in relation to the Chairman's fees for September-December 2019 were provided on the 3 January 2020 and a further 37,585 shares were purchased at a cost of £8,494 (excluding dealing costs). The remaining 50% of fees due has been paid in cash.

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 in office during 2019:

Charles Gregson	Non-Executive Chairman
John van Kuffeler	Group Chief Executive
Nick Teunon	Chief Financial Officer
Miles Cresswell-Turner (until 21 October 2019)	Executive Director
Niall Booker	Senior Independent Director
Heather McGregor	Non-Executive Director

The Directors and their profiles are detailed on pages 62 and 63. All of these Directors above, with the exception of Miles Cresswell-Turner served in office throughout the year under review.

In accordance with the Articles of Association and the UK Corporate Governance Code, each Director will offer themselves for re-election at the forthcoming AGM. In addition, Jono Gillespie, who was appointed as Chief Financial Officer on 1 April 2020 will also offer himself for re-election at the AGM.

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.

During the course of 2019, the Group has invested significantly in supporting the emotional and mental wellbeing of its workforce, with various initiatives in each operating division, including the launch of 'mental health first aiders' in Everyday Loans and Loans at Home.

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 a 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 SAYE 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 over the coming years.

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 31 in the notes to the financial statements.

Post-balance sheet events
Since 31 December 2019, there has been a global outbreak of COVID-19 which continues to have a significant impact on economies across the world. Each of the Group's three divisions is continuing to trade in an unprecedented business environment It is expected that as a result of the pandemic, the Group will experience a reduction in income from lending activities, together with increased expected credit losses ('ECL'). The Group considered the impact of COVID-19 on the carrying value of assets and liabilities in the Consolidated Statement of Financial Position. Whilst the overall impact of COVID-19 cannot be reliably estimated at this time, the Group assessed its key sensitivity was in relation to ECL on amounts receivable from customers and goodwill impairment.

Considering the impact on goodwill of a further decline in market multiples resulting from COVID-19, the Group notes that that this could result in further goodwill impairment post 31 December 2019. The Group has identified that on the basis of actual earnings for the year ended 31 December 2019, a 1% drop in price earnings multiples would result in c. £0.8m of additional impairment of goodwill at the branch-based lending division, and a reduction in the existing headroom in relation to the home credit division goodwill by £0.6m. As at 31 December 2019, total goodwill in relation to the guarantor loan division has been fully written-off.

The estimate of ECL at 31 December 2019 was based on macroeconomic assumptions which did not include nor anticipate the unprecedented impact of the COVID-19 pandemic. The ECL sensitivity to reasonably possible changes in those assumptions outside of COVID-19 is set out at note 2 to the financial statements. Considering the impact on ECL as a result of COVID-19, it is anticipated that this could result in increased ECL driven by customer repayment behaviours as well as a more pessimistic macro-economic weighting being applied to the provisioning model (in the form of an increase to the severe downside weighting). As part of its viability assessment, the Group assessed a number of macroeconomic scenarios which reflect economic developments since the reporting date. The Group recognises that whilst the severity of the impact of COVID-19 on the economy is uncertain, it is likely to result in disruption in the form of a recession and therefore require an increase in the severe downside weightings on which ECL is calculated. The sensitivity of the loan loss provision as at 31 December 2019 to a more pessimistic economic outlook resulting from COVID-19 is detailed in note 2 to the financial statements.

On 11 March 2020, the Group announced that it had entered into a new, six-year securitisation facility totalling £200m, of which £15m has been drawn. The new facility was put in place to repay £120m from the more expensive term loan facility provided by alternative institutional investors with the remainder available for growth at the Group's branch-based and guarantor loans divisions, subject to compliance with financial covenants.
For accounting purposes, the Group retains substantially all the risks and rewards associated with ownership of assets transferred into the securitisation vehicle and as the vehicle is controlled by the Group, it will be consolidated into the Group financial statements for the year ended 31 December 2020. This event does not impact the 31 December 2019 financial statements. Whilst the impact of the prior year adjustment and COVID-19 on the loan book has prompted a performance breach of certain covenants, preventing further drawdown on the new facility, negotiations with the lender have been positive and temporary relief has been provided whilst a more permanent agreement is reached. Until such agreement is concluded there exists material uncertainty over the ability of the Group to draw down further on the facility. The Board is in discussions with its lenders regarding possible future covenant waivers, whilst at the same time evaluating all funding options, which may include the issue of further equity, in order to ensure the Group has a strong and liquid balance sheet. Combined, it is hoped that these actions will unlock access to the facility and help to reduce overall funding costs as well as provide additional finance for future growth.

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. However, as noted on page 56, the Group has now captured certain environmental data and during the course of 2019 undertook the necessary assessment to comply with the ESOS, the confirmation of our compliance has been notified to the Environment Agency.

Charitable and political donations
The Group made charitable donations totalling £53,220 to a variety of charities in the year ended 31 December 2019. These included Prostate Cancer UK and Loan Smart.

The Group made no political donations in the year ended 31 December 2019.

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.

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 94 to 113
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

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 AGM of the Company is scheduled to be held at 2 St James' Street, London, SW1A 1EF at 11.00 am on 30 June 2020. A separate notice of meeting has already been despatched to shareholders and a copy is available from the Group's website: www.nsfgroupplc.

Further details can be found in the corporate governance report on page 81.

As the 2019 audit has taken longer to complete than expected and in accordance with DTR 4.1.3R, the Company has used the additional time granted before publishing audited accounts, to consider 'all aspects of their business and operations' and to ensure that the forward-looking elements of our Annual Report adequately considered and took into account the impact of the pandemic insofar as possible upon the business.

Given the timescales, it has been necessary to apply to Companies House for an extension to the filing date of the Group's audited accounts. As the anticipated date for completion of the audited accounts did not allow a clear 21 days' notice prior to the required AGM date, the Company is required to hold a separate general meeting to approve our audited accounts. This will now take place on 28 July 2020 and the notice of meeting has been dispatched to shareholders with the Annual Report.

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 separate general meeting to approve the 2019 Annual Report and accounts referred to above.

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
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 and Viability Statement.

As a result of the impact of COVID-19, the Group has at the date of signing the accounts, breached its portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. However recognising that such a breach is as a result of COVID-19 which is beyond the Group's control, Ares has granted a temporary waiver for this breach covering the period up to 29 June 2020 so as to allow time for a more permanent solution to be agreed. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the securitisation facility in full.

As set out on pages 87 to 88, as part of its going concern assessment, the Directors reviewed both the Group's access to liquidity and its future balance sheet solvency. For liquidity, the Group produced two scenarios: (i) a most likely (or 'base case') scenario which involves restricted lending across the Group in order to mitigate the risk of covenant breaches; and (ii) a downside scenario which applies stresses in relation to the key risks identified in the base case.

The Directors felt that the range of assumptions made in both the base case and downside scenario were such that given the uncertainties around the full general and idiosyncratic impact of COVID-19, there remained a material level of uncertainty around the impact on the Group's ability to meet its covenants and if they weren't met, the likelihood of a further waiver being granted by the lenders as well as the full impact on the Group's balance sheet.

The Directors acknowledge the considerable challenges presented by the outbreak of COVID-19 and the material uncertainty created for the going concern status of the Group and Company. However, following a number of steps taken by the Group (reduced lending volume across all three divisions, a reduction in staff numbers, the furloughing of a number of staff and the deferral of payments to the UK tax authorities) and despite the material uncertainty associated with forecast assumptions, purely as a consequence of COVID-19 as noted above, it is their reasonable expectation that the Group and Company will continue to operate and meet its liabilities as they fall due for the next 12 months and therefore has adopted the going concern basis of accounting

Whilst the Directors believe the Group and Company will remain a going concern, a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Such a material uncertainty includes the impact of potential reduced levels of collections and lending on the Group's financial performance, compliance with existing financial covenants and whether waivers will be granted by lenders (and under what terms) in the event of a further covenant breach. The Directors will continue to monitor the Group and Company's risk management, access to liquidity, balance sheet 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 32 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 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.

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

- the financial statements, prepared in accordance with IFRSs 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 2019 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 2019 financial statements 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 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.

Approved by the Board on 25 June 2020 and signed by the order of the Board.

Sarah Day
Company Secretary
25 June 2020

Report on the audit of the financial statements

1. 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 2019 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 statement of financial position;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company statement of cash flows; and
- the related notes 1 to 34.

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.

2. 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. The non-audit services provided to the Group and Parent Company for the year are disclosed in note 6 to the financial statements. 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.

3. Material uncertainty relating to going concern

We draw attention to note 1 in the financial statements, regarding the Group's ability to continue as a going concern. Operational disruption within the Group caused by COVID-19, continues to place increased pressure on the ability of the Group to comply with certain covenants and hence to operate within its existing debt facilities. Details of the Group's borrowings as at year end are disclosed in note 25 and details of the new securitisation facility entered into post year end is disclosed in note 34.

As at the date of signing, the Group has breached its portfolio performance covenants in relation to the securitisation facility and remains close to the gearing ratio covenant on the term facility. Although the Group has obtained a temporary waiver up to 29 June 2020, it is not able to draw down further on the new facility. We understand that in the event that this waiver is not extended, the Directors would be able to repay the amount drawn down under the facility.

For the going concern assessment, the Audit Committee has considered a base case scenario, which reflects a 12 month cash flow and loan book forecast from the date of approval of the financial statements. Included in these forecasts are assumptions in respect of customer behaviour and reduced lending volumes across all three divisions.

The Directors have identified that there are two key areas that lead to a material uncertainty over going concern:

- Uncertainty over the impact of the current lockdown and payment freeze on covenants; and
- Uncertainty over the environment post-lockdown, both in terms of specific demand for products and the economy in general.

The Group has considered sensitivities for what are believed to be reasonably possible adverse variations in performance and cash flows, reflecting the ongoing volatility created by COVID-19, as well as the resulting impact of these changes on the Group's debt structure, facilities and related financial covenants.

The Audit Committee has considered the mitigating actions against breaching covenants that are available to the Group, including:

- Seeking waivers from, or amendments to, the financial covenants contained in the Group's existing financing arrangements with lenders
- Other self-help measures including a reduced level of staff costs and the deferral of payments to the UK tax authorities.

Having reviewed the most recent projections and the sensitivity analysis and having carefully considered the material uncertainty and the mitigating actions available, the Audit Committee have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis.

In response to this matter, we obtained and assessed management's going concern forecasts and performed procedures including:

- Obtained an understanding of the relevant controls over the going concern assessment process;
- Evaluated the Directors' plans for future actions in relation to the going concern assessment;
- Tested the clerical accuracy of the model used to prepare the going concern forecasts;
- Reviewed the cash flow forecast produced by management and challenged the underlying data and key assumptions by assessing their consistency with budgets and external data;
- Considered financing facilities including nature of facilities, repayment terms and covenants;
- Reviewed management's sensitivity analysis and the impact on covenant compliance in particular a downside scenario under which no lending is expected during the next 12 months and the Directors' proposed action in case of potential breaches; and
- Considered the appropriateness of the disclosures in the financial statements.

As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • going concern (see material uncertainty relating to going concern section); • carrying value of goodwill; • provision for impairment losses against loans and receivables to customers; and • revenue recognition.
Materiality	The materiality we used for the Group financial statements was £791,000 which was determined based on 5.4% of adjusted pre-tax profit. Adjusted pre-tax profit is before fair value adjustments of £2.9m, amortisation of acquired intangible assets of £7.2m and exceptional items of £80.6m as described in the Consolidated Statement of Comprehensive Income.
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	Given the rapid spread of COVID-19 and the ongoing uncertainty surrounding its impact after the balance sheet date, and due to the inherent management judgement in estimating the impact for the Group's forecast performance and cash flows, we have enhanced our risk assessment and focused a greater degree of audit effort in assessing the going concern basis of preparation and the related material uncertainty. As a result we have identified going concern as a new key audit matter.

5. Conclusions relating to going concern, 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 24 to 27 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 117 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on pages 90 to 92 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 going concern and the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

As set out in the material uncertainty relating to going concern section, there is uncertainty as to whether the Group can comply with certain covenants and hence operate within its existing debt facilities in the going concern period.

There is also uncertainty beyond that period, with the Group being required to repay or refinance amounts due under its financing arrangements when they come due, which will be significant over the next three to four years, as set out in note 25 in the financial statements. The accessibility to further refinancing is dependent on future customer behaviour and lender appetite, which are uncertain in the current market as set out in the Directors' viability statement on pages 90 to 92.

6. 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. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

6.1. Carrying value of goodwill

Key audit matter description

The acquisitions of Loans at Home in 2015, Everyday Loans Group in 2016 and George Banco in 2017 led to the recognition of £140.7m of goodwill in the Consolidated statement of financial position. There has been an impairment of £65.8m in the year so the carrying value of goodwill as at 31 December 2019 is £74.8m. We note that management has concluded that COVID-19 is a non-adjusting post balance sheet event and as a result, no adjustments are required to the reported results of the Group, including the carrying value of goodwill.

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 branch-based lending and guarantor loans CGUs, which had goodwill of £91.9m and £8.6m allocated respectively.

Management performed a goodwill impairment assessment as at 31 December 2019 by determining the recoverable amount of these CGUs, based on fair value less cost to sell, and compared this to the carrying value of the CGU. Based on the results of this assessment, management determined that goodwill was impaired by £44.8m for branch-based lending and £8.6m for guarantor loans.

The key estimates involved in management's impairment assessment are:

- The selection of an appropriate performance metric for the CGU
- The calculation and application of an appropriate market multiple to the performance metric to determine fair value.

Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 85 to 92, accounting policies and notes 2 and 15 to the financial statements.

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

We obtained an understanding of relevant controls relating to the impairment assessment of goodwill.

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.

In relation to the market multiple, we used our valuation experts to challenge the multiple by determining an independent benchmark.

We independently calculated a fair value of the CGUs and compared this to management's calculation of the recoverable amount for branch-based lending and guarantor loans.

We also considered the timeline of the outbreak and impact of Covid-19 to verify that it should be treated as a non-adjusting post balance event.

Key observations

We concluded that management's valuation used in the impairment test and the recognition of an impairment charge is appropriate.

The market multiples used by management were consistent with our independently sourced computations.

We concurred with management's judgement that COVID-19 is a non-adjusting post balance sheet event.

6.2. Provision for impairment losses against loans and receivables to customers

Key audit matter description

The Group holds an IFRS 9 impairment provision of £49m against gross customer receivables of £411m (2018: restated impairment provision of £44m against gross customer receivables of £355m). We note that management has concluded that COVID-19 is a non-adjusting post balance sheet event and as a result, no adjustments are required to the reported results of the Group, including the impairment provision against loans and receivables to customers.

The Group's expected credit loss ("ECL") model is used to assess the carrying value of the asset for impairment using 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.

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

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.

Through the review of the 2019 financial statements, management determined that there was an error in the data used to calculate their post model adjustments ("PMA") to the provision. The input data did not adequately capture all relevant elements of the underlying loan population to calculate an accurate impairment provision. This resulted in the underestimation of the provision required since transition to IFRS 9 on 1 January 2018 of £3.2 million, and a further £0.8 million as at 31 December 2018. Management investigated the data error and revised their PMA calculations, to determine the prior year adjustments required to the expected credit loss provision. Further detail of the prior year adjustments are set out in note 1 to the financial statements.

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 85 to 92, accounting policies and notes 2 and 20 to the financial statements.

6.2 Provision for impairment losses against loans and receivables to customers continued

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

We obtained an understanding of relevant controls relating to the identification, valuation and recording of impairment provisions. For each of the Group's reportable segments we obtained an understanding of the IFRS 9 methodology and models and evaluated whether the methodology applied by management is compliant with the requirements of IFRS 9.

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 and benchmarking against peers in the industry.

To test the completeness and accuracy of inputs into the models, on a sample basis we traced input data 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.

We utilised data analytics and modelling specialists to test scripts and coding used internally by management, and where relevant their service provider, to validate the practical application of management's IFRS 9 methodology. Our IT specialists further tested the IT control environment of management's service provider.

We performed sensitivity analysis over the key assumptions of the models, especially those relating to macroeconomic scenarios 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 completeness and accuracy of management's PMAs, particularly those relating to macro-economic factors, and 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").

With regard to management's PMA that resulted in a prior year adjustment, we performed the following procedures:

- challenged the appropriateness of management's calculation methodology and assumptions.
- involved our analytics and modelling specialists to assess the calculation logic and with their support we independently re-ran the revised coding.
- evaluated the completeness and accuracy of input data used in management's calculation.
- assessed management's proposal of treating the adjustment as the correction of a material prior period error against the possibility of a change in estimate in accordance with IAS 8.

We also considered the timeline of the outbreak and impact of Covid-19 to verify that it should be treated as a non-adjusting post balance event.

Key observations

We concluded that management's provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.

The accounting treatment and disclosures of the prior period error were found to be appropriate.

We concurred with management's judgement that COVID-19 is a non-adjusting post balance sheet event.

6.3. Revenue recognition

Key audit matter description	The Group's main revenue stream is interest income of £181m (2018: £159m) 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. • 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 85 to 92 accounting policies and note 4 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant 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 the period over which the EIR is modelled and 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. We also tested management's manual adjustments relating to revenue recognition, including whether management's approach to recognising revenue against the net balance for accounts in stage 3 in the next reporting period is materially appropriate.
Key observations	We concluded that the revenue recognition models are compliant with the requirements of IFRS 9, the assumptions underpinning the models were determined and applied appropriately, and the revenue recognised is reasonably stated.

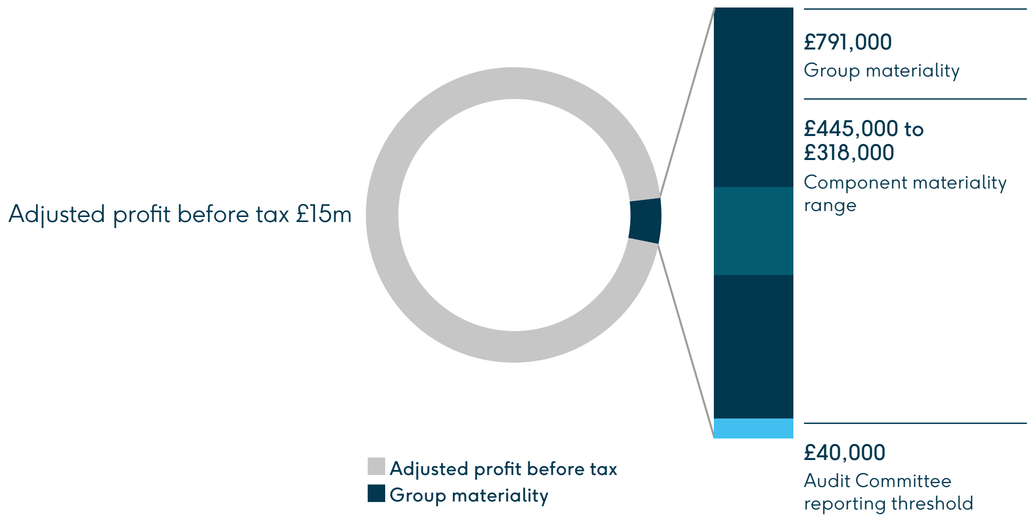
7. Our application of materiality

7.1. 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	£791,000 (2018: £760,000)	£317,500 (2018: £262,000)
Basis for determining materiality	We used 5.4% of adjusted pre-tax profit. Adjusted pre-tax profit is before fair value adjustments of £2.9m, amortisation of acquired intangible assets of £7.2m and exceptional items of £80.6m as described in the Consolidated Statement of Comprehensive Income. For the year ended 31 December 2018, we used 5.4% of restated, adjusted pre-tax profit, which was before fair value adjustments of £7.7m, amortisation of acquired intangible assets of £8.7m.	We used 4% of adjusted pre-tax profit. Adjusted pre-tax profit is before exceptional items of £128.9m. For the year ended 31 December 2018, we used 5% of restated, 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, amortisation of acquired intangible assets arising on acquisitions and exceptional items as described in the financial statements.	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 continuous business operations and have therefore excluded the exceptional items as described in the financial statements.



7.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the quality of the control environment and that we were not able to take a controls reliance approach. However, we also considered the extensive work performed over the period, errors and IFRS 9 and that much of this work was done to a lower component materiality and therefore concluded that the level of performance materiality for the group was appropriate.

7.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £40,000 (2018: £38,000), 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.

8. 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 £318,000 to £445,000 (2018: £380,000 to £608,000).

Based on our assessment of the Group's control environment, and considering the control deficiencies highlighted in the Audit Committee report on pages 85 to 92, we did not plan to take a controls reliance approach and therefore we did not test the operating effectiveness of controls.

All entities within the Group have the same engagement partner and the scope is consistent with prior year.

9. 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 specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) 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.

10. 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.

11. 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 and non-compliance with laws and regulations 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.

12. 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.

12.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own ongoing annual assessment of the risks that irregularities may occur either as a result of fraud or error that was most recently approved by the Board on 22 April;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their 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 of fraud or non-compliance with laws and regulations;
  - as set out in the Audit Committee report on pages 85 to 92 and note 33 to the financial statements, in April 2019 the Company identified certain technical infringements regarding historic distributions made by the Company. To rectify the infringements, the Company formalised their dividend policy and carried out two capital reductions in July 2019; and
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, impairment, valuations, IT, data analytics and credit risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and provision for impairment losses against amounts receivable to customers. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulation set by the FCA.

12.2 Audit response to risks identified

As a result of performing the above, we identified revenue recognition and provision for impairment losses against amounts receivable to customers as key audit matters related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 HMRC and the Financial Conduct Authority;
- in response to the identified issue of non-compliance with laws and regulations relating to dividends, obtaining an understanding of relevant controls relating to the approval of dividends and independently re-performing the year end calculation for distributable reserves, agreeing inputs to supporting documentation; 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 remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

13. 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 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.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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.

15. Other matters

15.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 22 October 2014 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2015 to 31 December 2019.

15.2. 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).

16. 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
25 June 2020

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	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 2019 £000
Revenue[1]	4	**183,657**	**(2,873)**	**180,784**
Other operating income		954	–	954
Modification loss	20	(1,181)	–	(1,181)
Derecognition loss	20	(413)	–	(413)
Impairment		(45,066)	–	(45,066)
Administrative expenses		(95,786)	(7,226)	(103,012)
Operating profit/(loss)	5	**42,165**	**(10,099)**	**32,066**
Exceptional items	8	–	(80,584)	(80,584)
Profit/(loss) on ordinary activities before interest and tax		**42,165**	**(90,683)**	**(48,518)**
Finance cost	11	(27,458)	–	(27,458)
Profit/(loss) on ordinary activities before tax		**14,707**	**(90,683)**	**(75,976)**
Tax on profit/(loss) on ordinary activities	13	(3,261)	2,929	(332)
Profit/(loss) for the year		**11,446**	**(87,754)**	**(76,308)**
Total comprehensive loss for the year				**(76,308)**

1 Revenue comprises interest income calculated using the EIR method, refer to note 1 in the notes to the financial statements for further detail.

Loss attributable to:	
• Owners of the Parent	**(76,308)**
• Non-controlling interests	–

Loss per share

	Note	Year ended 31 Dec 2019 Pence
Basic and diluted	12	**(24.45)**

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 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 Restated £000
Revenue	4	166,502	(7,678)	158,824
Other operating income		1,626	–	1,626
Modification loss	20	(78)	–	(78)
Derecognition loss	20	(129)	–	(129)
Impairment/cost of sales		(43,738)	–	(43,738)
Administrative expenses		(89,082)	(8,681)	(97,763)
Operating profit/(loss)	5	35,101	(16,359)	18,742
Exceptional items	8	–	–	–
Profit/(loss) on ordinary activities before interest and tax		35,101	(16,359)	18,742
Finance cost	11	(21,107)	–	(21,107)
Profit/(loss) on ordinary activities before tax		13,994	(16,359)	(2,365)
Tax on profit/(loss) on ordinary activities	13	(3,050)	3,108	58
Profit/(loss) for the year		10,944	(13,251)	(2,307)
Total comprehensive loss for the year				(2,307)

Loss attributable to:	
• Owners of the Parent	(2,307)
• Non-controlling interests	–

Loss per share

	Note	Year ended 31 Dec 2018 Pence
Basic and diluted	12	(0.74)

Consolidated statement of financial position
as at 31 December 2019

	Note	31 Dec 2019 £000	31 Dec 2018[1] Restated £000	1 Jan 2018[1] Restated £000
ASSETS				
Non-current assets				
Goodwill	15	**74,832**	140,668	140,668
Intangible assets	16	**8,572**	14,477	21,706
Derivative asset	24	**1**	241	–
Deferred tax asset	26	**1,677**	230	–
Right-of-use asset	18	**10,560**	–	–
Property, plant and equipment	17	**6,556**	6,677	4,933
Amounts receivable from customers	20	**185,269**	198,631	129,647
		287,467	360,924	296,955
Current assets				
Amounts receivable from customers	20	**176,379**	112,027	120,289
Trade and other receivables	22	**2,643**	3,967	1,551
Cash and cash equivalents	23	**14,192**	13,894	10,954
		193,214	129,888	132,794
Total assets		**480,681**	490,812	429,749
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	25	**26,909**	16,445	9,102
Provisions	25	**1,466**	589	1,251
Lease liability	25	**1,830**	–	–
Total current liabilities		**30,205**	17,034	10,353
Non-current liabilities				
Lease liability	25	**9,275**	–	–
Deferred tax liability	26	**–**	–	2,193
Bank loans	25	**317,590**	266,322	199,316
Total non-current liabilities		**326,865**	266,322	201,509
Equity				
Share capital	27	**15,621**	15,852	15,852
Share premium	28	**180,019**	254,995	254,995
Other reserves	29	**2,152**	(2,011)	(1,066)
Retained loss		**(74,181)**	(61,635)	(52,150)
		123,611	207,201	217,631
Non-controlling interests		**–**	255	255
Total equity		**123,611**	207,456	217,886
Total equity and liabilities		**480,681**	490,812	429,749

1 31 December 2018 balance sheet intangibles totalling £1.05m which were previously presented as property, plant and equipment have been re-presented as part of intangible assets, the 1 January 2018 balance sheet also been re-presented to reflect this classification and have been adjusted by £0.63m. Refer to note 16 for detail. 31 December 2018 and 1 January 2018 balance sheet amounts receivable from customers has been restated, refer to note 1 for further detail. Amounts have also been re-presented in order to demonstrate the split between current and non-current amounts receivable from customers.

These financial statements were approved by the Board of Directors on 25 June 2020.

Signed on behalf of the Board of Directors.

John van Kuffeler
Group Chief Executive

Jono Gillespie
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained loss £000	Non-controlling interest £000	Total £000
At 31 December 2017		15,852	254,995	(1,066)	(36,793)	255	233,243
IFRS 9 transition opening balance adjustment		–	–	–	(12,718)	–	(12,718)
As at 1 Jan 2018 opening balance		15,852	254,995	(1,066)	(49,511)	255	220,525
Prior year adjustment – amounts receivable from customers	1	–	–	–	(2,639)	–	(2,639)
As at 1 Jan 2018 opening balance – as restated		15,852	254,995	(1,066)	(52,150)	255	217,886
Transactions with owners, recorded directly in equity:							
Total comprehensive loss for the year		–	–	–	(2,307)	–	(2,307)
Dividends paid	14	–	–	–	(7,177)	–	(7,177)
Credit to equity for equity-settled share-based payments	29	–	–	1,157	–	–	1,157
Purchase of own shares	29	–	–	(2,102)	–	–	(2,102)
At 31 December 2018 – as restated		15,852	254,995	(2,011)	(61,635)	255	207,456
Total comprehensive loss for the year		**–**	**–**	**–**	**(76,308)**	**–**	**(76,308)**
IFRS 16 transition opening balance adjustment	3	**–**	**–**	**–**	**(295)**	**–**	**(295)**
Transactions with owners, recorded directly in equity:							
Dividends paid	14	**–**	**–**	**–**	**(8,425)**	**–**	**(8,425)**
Capital reduction	28	**–**	**(75,000)**	**–**	**75,000**	**–**	**–**
Credit to equity for equity-settled share-based payments	29	**–**	**–**	**1,183**	**–**	**–**	**1,183**
Transfer of share-based payments on vesting of share awards	29	**–**	**–**	**(734)**	**734**	**–**	**–**
Issue of shares	27	**23**	**24**	**–**	**(47)**	**–**	**–**
Equity for Founder Shares[1]	29	**–**	**–**	**255**	**–**	**(255)**	**–**
Cancellation of shares	27	**(254)**		**3,459**	**(3,205)**	**–**	**–**
At 31 December 2019		**15,621**	**180,019**	**2,152**	**(74,181)**	**–**	**123,611**

1 In the current year, £255,000 relating to Founder Shares has been re-presented as equity rather than non-controlling interest because it reflects other reserves for the Group.

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	**Year ended 31 Dec 2019 £000**	Year ended 31 Dec 2018 £000
Net cash used in operating activities	30	**(15,927)**	(34,763)
Cash flows from investing activities			
Purchase of property, plant and equipment and software intangibles		**(6,535)**	(6,083)
Proceeds from sale of property, plant and equipment		**62**	180
Net cash used in investing activities		**(6,473)**	(5,903)
Cash flows from financing activities			
Finance cost		**(19,277)**	(14,121)
Debt raising		**50,400**	67,006
Dividends paid	14	**(8,425)**	(7,177)
Purchase of own shares	29	**–**	(2,102)
Net cash from financing activities		**22,698**	43,606
Net increase in cash and cash equivalents		**298**	2,940
Cash and cash equivalents at beginning of year		**13,894**	10,954
Cash and cash equivalents at end of year	23	**14,192**	13,894

Company statement of financial position

as at 31 December 2019

	Note	**31 Dec 2019 £000**	31 Dec 2018[1] Restated £000	1 Jan 2018[1] Restated £000
ASSETS				
Non-current assets				
Property, plant and equipment	17	51	95	142
Intangible assets	16	75	85	16
Right-of-use assets	18	162	–	–
Investments	19	95,686	213,255	212,591
		95,974	213,435	212,749
Current assets				
Trade and other receivables	22	60,357	61,729	60,984
Cash and cash equivalents	23	194	393	320
		60,551	62,122	61,304
Total assets		**156,525**	**275,557**	**274,053**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	25	13,047	4,786	1,309
Lease liability	25	161	–	–
Non-current liabilities				
Lease liability	25	43	–	–
Total liabilities		**13,251**	**4,786**	**1,309**
Equity				
Share capital	27	15,621	15,852	15,852
Share premium	28	180,019	254,995	254,995
Other reserves	29	2,139	(1,771)	(824)
Retained profit		(54,505)	1,695	2,721
Total equity		**143,274**	**270,771**	**272,743**
Total equity and liabilities		**156,525**	**275,557**	**274,053**

1 The cost and accumulated amortisation of Company software were previously presented in the Property, Plant and Equipment note 17. The 31 December 2018 and 1 January 2018 comparatives have been adjusted so that the cost and accumulated amortisation of software are included in Intangible Assets. The 1 January 2018 and 31 December 2018 balances for Investments and Other reserves have been adjusted to include £255,000 relating to the Founder Shares that were issued in 2014. Please refer to note 29 for further information on the Founder Shares. The 2018 comparatives have also been restated to reclassify £0.326m share based payment charges to investments. Because the impact on the opening balance sheet is not material, this correcting adjustment has not been adjusted in the 1 January 2018 balance sheet.

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 loss for the financial year reported in the financial statements for the Company was £119.4m (2018: profit of £6.2m[2]).

2 The 2018 comparative has been restated from £5.8m to reflect SAYE share based payments relating to subsidiaries reclassified to investments.

These financial statements were approved by the Board of Directors on 25 June 2020.

Signed on behalf of the Board of Directors.

John van Kuffeler
Group Chief Executive

Jono Gillespie
Chief Financial Officer

Company number – 09122252

Company statement of changes in equity
for the year ended 31 December 2019

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained profit £000	Total £000
At 31 December 2017		15,852	254,995	(1,079)	2,721	272,489
Prior year adjustment – Founder Shares		–	–	255	–	255
At 31 December 2017 – as restated[1]		15,852	254,995	(824)	2,721	272,743
Total comprehensive income for the year – as restated[2]		–	–	–	6,152	6,152
Transactions with owners, recorded directly in equity:						
Dividends paid	14	–	–	–	(7,177)	(7,177)
Credit to equity for equity-settled share-based payments	29	–	–	1,155	–	1,155
Purchase of own shares	29	–	–	(2,102)	–	(2,102)
At 31 December 2018 – as restated		15,852	254,995	(1,771)	1,695	270,771
Total comprehensive income for the year		**–**	**–**	**–**	**(119,483)**	**(119,483)**
Transactions with owners, recorded directly in equity:						
Dividends paid	14	**–**	**–**	**–**	**(8,425)**	**(8,425)**
Capital reduction	28	**–**	**(75,000)**	**–**	**75,000**	**–**
Credit to equity for equity-settled share-based payments	29	**–**	**–**	**1,185**	**–**	**1,185**
Transfer of share-based payments on vesting of share awards	29	**–**	**–**	**(734)**	**–**	**(734)**
Issue of shares	27	**23**	**24**		**(47)**	**–**
Cancellation of shares	27	**(254)**	**–**	**3,459**	**(3,206)**	**–**
IFRS 16 transition adjustment	3	**–**	**–**	**–**	**(39)**	**(39)**
At 31 December 2019		**15,621**	**180,019**	**2,139**	**(54,505)**	**143,274**

1 The 1 January 2018 and 31 December 2018 balances for Other reserves have been adjusted to include £255,000 relating to the Founder Shares that were issued in 2014. Please refer to note 29 for further information on the Founder Shares.
2 Refer to footnote 2 in regards to restated profit on page 130.

Company statement of cash flows
for the year ended 31 December 2019

	Note	**Year ended 31 Dec 2019 £000**	Year ended 31 Dec 2018 £000
Net cash used in operating activities	30	**(5,108)**	(754)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12)**	(91)
Dividend income[1]		**13,500**	10,200
Net cash used in investing activities		**13,488**	10,109
Cash flows from financing activities			
Finance cost		**(154)**	(3)
Dividends paid	14	**(8,425)**	(7,177)
Purchase of own shares	29	**–**	(2,102)
Net cash from financing activities		**(8,579)**	(9,282)
Net increase/(decrease) in cash and cash equivalents		**(199)**	73
Cash and cash equivalents at beginning of year		**393**	320
Cash and cash equivalents at end of year	23	**194**	393

1 Dividend income has been re-presented to recognise this as a cash inflow from investing activities. This was previously shown as a cash flow from financing activities in the prior year.

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 IFRSs 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 IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use ('VIU') 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 2019. 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 and Viability Statement.

As a result of the impact of COVID-19, the Group has at the date of signing the accounts, breached its portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. However recognising that such a breach is as a result of COVID-19 which is beyond the Group's control, Ares has granted a temporary waiver for this breach covering the period up to 29 June 2020 so as to allow time for a more permanent solution to be agreed. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the securitisation facility in full.

As set out on pages 87 to 88, as part of its going concern assessment, the Directors reviewed both the Group's access to liquidity and its future balance sheet solvency. For liquidity, the Group produced two scenarios: (i) a most likely (or 'base case') scenario which involves restricted lending across the Group in order to mitigate the risk of covenant breaches; and (ii) a downside scenario which applies stresses in relation to the key risks identified in the base case.

Under the base case, we have assumed the waiver granted by Ares is extended and no repayment of currently drawn amounts is made. Whilst the headroom which exists in the financial covenants remains very tight, the Group does not expect to breach any further covenants in the next 12 months and therefore would not require further covenant waivers from its lenders in order to remain viable. The Group has considered a stress to the base case where it is required to repay the £15m currently drawn under the securitisation facility. Under this stressed scenario the Group still does not expect to breach any further covenants over the next 12 months.

Under the downside scenario, the Group would be expected to breach certain covenants during the next 12 months and would therefore require waivers from its lenders in order to remain viable. The Group additionally ran a liquidity reverse stress test on the base case to identify the level expected collections would have to fall by to cause the Group to deplete all cash reserves. This assumes no further lending and a corresponding fall in collections with no change to operating expenses. The result of this showed that collections would have to fall by a further 65% from expected forecast levels in the base case for the Group to become illiquid, assuming no access to further funding. Such a reduction in collections, based on evidence to date was thought by the Directors to be an unlikely event.

With regards to balance sheet solvency of the Group, the Directors note that under both scenarios, the Group and Company remained in a net asset position and upon adding a further stress to write-off all remaining goodwill on the balance sheet as at 31 December 2019, the Group and Company remained solvent. The Directors noted that a material uncertainty exists regarding the impact of COVID-19 on the assumptions made and subsequent outcomes as well as the ultimate impact on covenants both under both the base case and downside scenarios which may cast significant doubt on the Group and Company's ability to continue as a going concern.

The Directors felt that the range of assumptions made in both the base case and downside scenario were such that given the uncertainties around the full general and idiosyncratic impact of COVID-19, there remained a material level of uncertainty around the impact on the Group's ability to meet its covenants and if they weren't met, the likelihood of a further waiver being granted by the lenders as well as the full impact on the Group's balance sheet.

The Directors acknowledge the considerable challenges presented by the outbreak of COVID-19 and the material uncertainty created for the going concern status of the Group and Company. However, following a number of steps taken by the Group (reduced lending volume across all three divisions, a reduction in staff numbers, the furloughing of a number of staff and the deferral of payments to the UK tax authorities) and despite the material uncertainty associated with forecast assumptions, purely as a consequence of COVID-19 as noted above, it is their reasonable expectation that the Group and Company will continue to operate and meet its liabilities as they fall due for the next 12 months and therefore has adopted the going concern basis of accounting.

Given the widespread government-led support to businesses, the steps taken by UK regulators as well as some market data from analogous situations and discussions held with each of the Group's lenders, should the Group find itself in a position where it is faced with further covenant breaches, the Directors have a reasonable expectation that the Group's lenders will agree to waive potential covenant breaches to an extent, albeit at a higher cost. The Directors note that current negotiations with lenders suggest that whilst it is likely that waivers would be given, at a cost, to cover reasonable deviations from the base case scenario, waivers which would be required to fully cover the downside scenario are beyond what is currently envisaged in the negotiations. There is therefore a material uncertainty regarding whether the Group would be able to operate within the limits set by its lenders in such a scenario. As mentioned above, the Group notes that as at the date of signing the accounts, there has been a breach of portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. This has arisen as a result of the impact of COVID-19. Recognising the portfolio performance covenant breach is as a result of factors beyond the Group's control, a temporary waiver has been granted by its lender for this breach covering up to 29 June 2020 to allow time for permanent changes to the treatment of COVID-19 flagged loans be agreed. As set out above, management expect that the waiver will be extended for a defined period should negotiations not reach a conclusion by 29 June 2020. In the event that no agreement can be reached or extended then the Group has sufficient cash resources to repay the amount drawn under the securitisation facility in full. The Group is not currently in breach of any other covenants associated with the securitisation facility and is currently not in breach of covenants associated with the term loan and RCF facilities. The assumption of lender support for covenant breaches forms a significant judgement of the Directors in the context of approving the Group's going concern status.

As highlighted above, whilst the Directors believe the Group and Company will remain a going concern, a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Such a material uncertainty includes the impact of potential reduced levels of collections and lending on the Group's financial performance, compliance with existing financial covenants and whether waivers will be granted by lenders (and under what terms) in the event of a further covenant breach. The Directors will continue to monitor the Group and Company's risk management, access to liquidity, balance sheet and internal control systems as well as lending and collections.

Changes in accounting policies and disclosures

New and amended standards and interpretations issued but not effective for the financial year ending 31 December 2019

In the current year and in accordance with IFRSs requirements, certain new and revised standards and interpretations are in issue but not yet effective. The Directors do not expect the adoption of these standards to have a significant effect on the financial statements of the Company in future periods.

Management will continue to assess the impact of new and amended standards and interpretations on an ongoing basis.

New and amended standards and interpretations effective for the financial year ending 31 December 2019

IFRS 16 Leases

On 1 January 2019, the Group implemented IFRS 16 which 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. As permitted by IFRS 16, comparative information for previous periods has not been restated. The impact on the Group's financial position of applying IFRS 16 requirements is set out in note 3.

The Group is not a lessor and hence there has been no significant impact on the financial statements.

Prior year restatement

The Group transitioned to IFRS 9 on 1 January 2018. IFRS 9 introduced a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information and replaced 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. Through the review of the 2019 financial statements, it was determined that an error in the data used to calculate the post model adjustments had resulted in an underestimation of the level of loan loss provision required at 1 January 2018 by £3.2m. The input data did not adequately capture all relevant elements of the underlying loan population required by the model to calculate an accurate impairment provision. As a result, the level of loan loss provisions has remained below that required at the time of transition and thereafter with the provision £4.0m lower than that required at 31 December 2018. A prior year adjustment to 31 December 2018 amounts receivable from customers has therefore been made to the loan loss provision of both branch-based lending and guarantor loans of £3.6m and £0.4m respectively. The effect of this adjustment on the Group is summarised below. In the restated statement of comprehensive income, the portion of the derecognition gain/(loss) relating to substantial modifications during 2018 has been re-presented from modification loss to derecognition gain/(loss), and the impact of the prior year adjustment on the derecognition gain/loss has also been reflected in the restated amounts on the following page.

1. Accounting policies continued

Impact on transition to IFRS 9 as at 1 January 2018:

	Previous opening Group balance sheet 1 Jan 2018 £000	Adjustment to branch-based lending £000	Adjustment to guarantor loans £000	Restated opening balance sheet 1 Jan 2018 £000
Assets				
Amounts receivable from customers	253,116	(2,928)	(252)	249,936
Liabilities				
Deferred tax liability	(2,734)	498	43	(2,193)
Equity				
Retained loss	(49,511)	(2,430)	(209)	(52,150)

Year ended 31 December 2018 impact:

	Previous closing Group balance sheet 31 Dec 2018 £000	Branch-based lending £000	Guarantor loans £000	Restated closing balance sheet 31 Dec 2018 £000
Assets				
Amounts receivable from customers	314,613	(3,562)	(393)	310,658
Liabilities				
Deferred tax (liability)/asset	(252)	407	75	230
Trade and other payables[1]	(16,653)	182	26	(16,445)
Equity				
Retained loss	(58,368)	(2,973)	(294)	(61,635)

1 Trade and other payables includes current tax liability.

	Year end 31 Dec 2018 Reported £000	Adjustment to branch-based lending £000	Adjustment to guarantor loans £000	Restated Year end 31 Dec 2018 Reported £000
Revenue	158,824	–	–	158,824
Other operating income	1,626	–	–	1,626
Modification loss	(482)	404	–	(78)
Derecognition loss	–	(97)	(32)	(129)
Impairments	(42,688)	(941)	(109)	(43,738)
Administration expenses	(97,763)	–	–	(97,763)
Operating profit	19,517	(633)	(142)	18,742
Exceptional items	–	–	–	–
Profit before interest and tax	19,517	(633)	(142)	18,742
Finance cost	(21,107)			(21,107)
Profit/(loss) before tax	(1,590)	(633)	(142)	(2,365)
Taxation	(89)	120	27	58
Profit/(loss) after tax	(1,679)	(513)	(115)	(2,307)
Earnings (loss) per share	(0.54)p			(0.74)p

Alternative Performance Measures

The Group uses APMs to monitor the financial and operational performance of each of its business divisions and the Group as a whole. The APMs are consistent with how the business is managed and therefore 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. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRSs measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets. 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 2019, APMs remain unchanged from the prior year. Refer to the Appendix for a glossary of APMs and reconciliation to IFRSs reported numbers.

The new accounting standard IFRS 16 Leases has been applied from 1 January 2019. The application of IFRS 16 has resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to the previous accounting standard IAS 17. Refer to note 3 for further detail. The 2019 APMs include the impact of IFRS 16, whilst the 2018 APMs have not been restated for IFRS 16 as the impact is not deemed material.

Revenue recognition
Interest income is recognised in the statement of comprehensive income for all amounts receivable from customers and is measured at amortised cost using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. 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 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 ECL).

Other operating income
Other operating income relates to amounts received as a result of debt sales made. The debt sales made relate only to those amounts receivable from customers which have fallen into arrears and have subsequently been charged off. Therefore as the Group makes every effort to collect on receivables and has no intention of selling loans when originated, the Group's business model remains consistent with the definition of to hold and collect (further detail under Financial Assets).

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

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

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

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 is unwound to revenue in the statement of comprehensive income on an EIR basis over the expected life of the acquired loans. At the end of each period, the fair value of the acquired loan book is assessed under IFRS 9 as part of the Group's assessment of ECL.

Agent Commission – home credit
Agents are paid commission on collections only and not what they lend to customers, this ensures loans are affordable at the point at which loans are issued and collected. Affordability is reassessed each time an existing customer refinances and agents are paid a lower commission rate on settled balances. Agents are also paid for recruiting new customers. Collecting commission is accounted for on a cash basis in the month incurred, whilst new customer commission is deferred over the life of the loan.

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 incurred £80.6m of exceptional costs for the year ended 31 December 2019 (2018: £nil). Refer to note 8 for further detail.

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.

1. Accounting policies continued

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 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 when an indicator of impairment exists, and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the CGU with the recoverable amount of the relevant CGU. Expected future earnings and cash flows 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.

Cash generating units

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ('CGUs'). In line with the operation segments reported by the Group, the Board consider home credit (Loans at Home), branch-based lending (Everyday Loans) and guarantor loans (George Banco and TrustTwo) as three CGUs, as each operate as standalone divisions and generate cash inflows that are largely independent of the cash inflows from other assets. The aggregation of George Banco and TrustTwo into a single CGU is consistent with IAS 36 which permits such aggregation provided that the CGU to which goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes; and is not larger than an operating segment, as defined by paragraph 5 of IFRS 8 Operating Segments, before aggregation.

No goodwill was attributable to TrustTwo upon acquisition of Everyday Loans.

Intangible assets

Intangible assets include acquired intangibles in respect of the customer list and credit decisioning technology at Everyday Loans, together with the Everyday Loans and TrustTwo brands. Acquired intangibles in respect of the George Banco customer list, broker relationships, and brand have been fully written-off in the current year as a result of the impairment assessment carried out at the Guarantors Loans Division (refer to note 15). In addition, intangible assets include IT software development and computer software. The Board of Directors will assess each of the Group's remaining intangible assets for impairment at each future accounting date.

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

Customer lists	Between 3 and 7 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 their estimated useful lives 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

Leases
From 1 January 2019, the Group adopted IFRS 16 Leases. Refer to note 3 for detailed accounting policies now in effect.

Investments
Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment. In line with IAS 36, the investments in subsidiaries and associates are assessed for indications of impairment at the end of each reporting period (and if any such indication exists, the recoverable amount is estimated and compared to carrying value) and on an annual basis.

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' ('SPPI'). 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 SPPI 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.

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. 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 considering all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets and how these are managed. 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.

The Group has assessed its business models in order to determine the appropriate IFRS 9 classification for its financial assets. As part of this assessment, the Group has recognised that it has no intentions of selling the assets which it originates. The financial assets in all three business divisions are held to collect contractual cash flows while the performance of the asset is assessed by reference to various factors such as collections performance and expected losses. In order to be accounted for at amortised cost, it is also necessary for individual instruments to have contractual cash flows that are SPPI. As the Group's financial assets meet both the hold to collect and SPPI criteria they are held and subsequently measured at amortised cost.

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 is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the Group has concluded that the ECL on these items is nil and therefore no impairment loss adjustment is required.

Intercompany receivables which fall under the scope of IFRS 9 are assessed for ECL on an annual basis. This assessment involves an analysis of the ability of the entity to repay amounts owed as at the end of the reporting period and includes the consideration of the probability of default, loss given default and exposure at default. IFRS 9 requires ECL to always reflect both the possibility that a loss occurs and the possibility that no loss occurs, even if the most likely outcome is no credit loss.

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. Intercompany loans have been assessed for impairment and the ECL are not material.

Amounts receivable from customers
Amounts receivable from customers originated by the Group are initially recognised at the amount loaned to the customer plus directly attributable costs. Subsequently, amounts receivable from customers are increased by revenue and reduced by cash collections and any deduction for loan loss provisions.

Recognition of expected credit losses
IFRS 9 introduces an impairment model which requires entities to recognise ECL based on unbiased forward-looking information.

1. Accounting policies continued

The Group applies the ECL impairment model when determining the loan loss provisions to be applied to amounts receivable from customers. This comprises three stages: (1) on initial recognition, a loan loss provision is recognised and maintained equal to 12 months of ECL; (2) if credit risk increases significantly relative to initial recognition, the loan loss provision is increased to cover full lifetime ECL; and (3) when a financial asset is considered credit-impaired, the loan loss provision continues to reflect lifetime ECL and interest revenue is calculated based on the carrying amount of the asset, net of the loan loss provision, rather than its gross carrying amount. Loan loss provisions are therefore calculated based on an unbiased probability-weighted outcome which takes into account historical performance and considers the outlook for macroeconomic conditions. The Group reviews its portfolio of amounts receivable from customers 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, both of which are detailed below.

Home credit

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 missed payments in the last 13 weeks. As IFRS 9 requires that lenders provide for the 12-month ECL which represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date (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 loan loss provisions at the point of issue and captures all loans which do not fall under stages 2 and 3.

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 initial recognition. 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. Loan loss provisions are thereby calculated by reference to their stage (criteria for categorisation into stages is as described above) 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 EIR. A receivable can move from having a provision calculated on a lifetime expected loss basis back to a 12-month expected losses basis (or vice versa) depending on the performance of the receivable at the review date. 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 macroeconomic adjustment. Due to the nature of the home credit industry and based on historical evidence, management has determined that the effect of traditional macroeconomic downside indicators is minimal and therefore such an adjustment is currently not necessary. Management will continue to monitor external macroeconomic trends and their impact and apply an adjustment should it become reasonable to do so.

Branch-based lending and guarantor loans

Customer accounts in the branch-based lending and the Guarantor Loans Divisions have been categorised into the three stages as defined in IFRS 9 with reference to the following criteria:

- Loans in stage 1 which comprise all amounts receivable from customers which do not fall into stages 2 and 3.
- Loans in stage 2 which comprise those amounts receivable from customers which show a significant increase in credit risk since origination, as determined by management to be the earlier of:
  - 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). This is derived by evaluating the impact of increased credit losses on risk adjusted margin by score band across the loan portfolio; or
  - the point at which a loan is 30 days past due (but less than 90 days past due); or.
  - loans which have been subject to curing treatment
- Loans in stage 3 which comprise amounts receivable from customers in default (in line with IFRS 9, the definition of default is over 90 days in arrears) as well as those accounts identified as insolvent.

The branch-based lending and the Guarantor Loans 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 EIR. The ECL drivers of PD, EAD and LGD are modelled at a portfolio level which considers vintage, maturity, exogenous and other credit factors and applied across all receivables at initial recognition. 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. The model used reflects a blended outcome based on four macroeconomic scenarios of base, downside stress, severe downside stress and positive, with which specified weightings are applied. Stress testing methodologies are also leveraged within forecasting economic scenarios for IFRS 9 purposes. The macroeconomic variables which are modelled include Bank of England base rate ('BoE'), 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.

Alongside a review of the economic climate, management have considered a variety of weightings in the assessment of the macroeconomic outlook. The weightings address the risk of non-linearity in the relationship between credit losses and economic conditions, with provisions increasing more in unfavourable conditions (particularly severe conditions) than they reduce in favourable conditions. The loan loss provision recognised is therefore the probability-weighted sum of the provisions calculated under a range of economic scenarios. The Group has adopted the use of four main economic scenarios:

- **Base (BoE Base):** BoE 2019 stress testing base scenario
- **Severe downside stress (BoE Stress):** BoE 2019 stress testing annual cyclical scenario ('ACS') scenario
- **Positive:** constructed in-house, but based on PriceWaterhouseCoopers' ('PWC') UK Economic Outlook, 2019
- **Downside stress:** constructed in-house, based on a review and impact of the financial crisis during 2008

The scenarios and the weightings are derived using external data together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions.

The base scenario represents the most likely economic forecast. This scenario reflects a benign scenario where base rate and unemployment remain low at around 4%, GDP and HPI grow steadily in line with past trends and CPI increases only gradually. At 31 December 2018 it was assigned a probability weighting of 85% and at 31 December 2019 it was assigned a 50% probability weighting. The downside stress, severe downside stress and positive economic scenarios are considered less likely to occur and have been given the following weightings:

	31 Dec 2019	31 Dec 2018
Downside stress	**30%**	0%
Severe downside stress	**15%**	10%
Positive	**5%**	5%

The downside stress scenario constructed in-house reflects a slightly more severe position than what was seen during the 2008 financial crisis. GDP and HPI fall substantially, CPI and unemployment increase. In 2008 base rate fell to 0.25% and stayed at that level for a considerable time, in this scenario we have assumed base rate increases to >1% to simulate what may happen if the BoE had to raise interest rates to curb inflation. Severe downside stress scenario is based upon the BoE's own stress scenario. This represents for each individual variable a severe downside with sharp falls in GDP and HPI combined with sharp increases in unemployment (>9%) CPI and base rate (4%). The BoE provides base and stress scenario data but not a positive scenario, for our positive scenario we use PwC's Economic Outlook which is updated annually. For the positive scenario we use 3% for GDP, a low, stable base rate of interest and low levels of unemployment.

A sensitivity of these scenarios and weightings has been performed at note 2.

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.

Home credit
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.

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.

Branch-based lending and guarantor loans
Within the branch-based lending and Guarantor Loans Divisions there are three ways a customer account can demonstrate significant increase in credit risk ('SICR'):

1. 30 days past due performance bucket (a rebuttable presumption under IFRS 9)
2. Current PD > residual origination lifetime PD × stage 2 threshold
3. All accounts subject to a curing treatment, including both reschedules and deferments

Along with the presumption that loans past 30 days due or loans subject to curing treatment represents a SICR, a quantitative assessment is carried out. This quantitative assessment involves evaluating the impact of increased credit losses on risk adjusted margin ('RAM' being revenue less impairment) by score band across the loan portfolio. A PD above the minimum level (deemed as the 'stage 2 threshold') 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. This staging test is run on a monthly basis by comparing probability of default at the reporting date to the probability of default at origination based on updated bureau status of the customer and the delinquency status of each receivable. Actual historical defaults modelled, along with the EMV factors (see below) are used to model an EMV PD. Decomposing performance

1. Accounting policies continued

data in this way is a standard tool in credit management. EMV stands for exogenous, maturity, vintage:

- Exogenous – effects that influence performance at a calendar date. These are typically external factors (such as macroeconomic conditions) but may also be internally driven (e.g. changes to forbearance strategy).
- Maturity – effects that influence performance at a time on book. Credit accounts typically 'mature' according to a predictable schedule from the time that they are originated. For instance, PD typically peaks one to two years from origination for unsecured products.
- Vintage – effects that relate to the period in which the accounts were originated. The most obvious driver of changes in performance from this perspective is changes to credit strategy.

When applying the model, the three factors are combined to generate the overall prediction.

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 loan loss provisioning model, i.e. the loss allowance is measured as the lifetime ECL.

Curing policy

Loans in stage 3 which have not been cured represent those which have gone 90 days in arrears at one point in time. If a loan has ever been 90 days in arrears, regardless of performance, the loan will remain in stage 3. The business has introduced a policy during 2019 to categorise these loans as performing or not performing based on their delinquency at the reporting date. For those deemed performing for a full 12 months are deemed to have moved back to stage 1. Loans that have performed for more than six months but less than 12 months are deemed to have moved back to stage 2. Those loans which were deemed not performing at year end will remain in stage 3.

Definition of default

The definition of default is used in measuring the amount of ECL and in the determination of whether the loan loss provision is based on 12-month or lifetime ECL, as default is a component of PD which affects both the measurement of ECL 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; or
- the borrower is insolvent or unlikely to pay its credit obligations to the Group in full.

When assessing if the borrower is unlikely to pay their 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.

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.

Branch-based lending and guarantor loans

Forbearance will be granted 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 occurred 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 SPPI, 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 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 ECL) 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.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD, estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, 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.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

Write-off policy

Branch-based lending and Guarantor Loans Division

For the purpose of accounting in the financial statements, loans are written-off when an account is greater than 180 days in arrears, at which point interest is no longer accrued and any subsequent recoveries are credited to the statement of comprehensive income. Whilst the customer account is written-off from our financial statements, it remains active whilst we explore any remaining methods of recovery. Ongoing collections activity is managed both internally and via FCA regulated external debt collection companies. When a debt is sold and the cash is received for the debt, the recoveries are credited to the income statement.

Home credit

For the purpose of accounting in the financial statements, a customer's balance is fully written-off at the point the customer has gone 26 consecutive weeks without any payment. Before this point the balance is heavily provided for in line with IFRS 9. Whilst the customer account is written-off from our financial statements, it remains active whilst we explore any remaining methods of recovery.

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 remeasured 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 EIR. 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.

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.

1. Accounting policies continued

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 SAYE schemes) 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 29 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 – Group

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:

Amounts receivable from customers – significant increase in 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 and therefore the Group makes assumptions to determine whether there are indicators that credit risk has increased significantly which indicates that there has been an adverse effect on expected future cash flows. 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. As per note 1, for branch-based lending and guarantor loans, a PD above the minimum level (deemed as the 'stage 2 threshold') 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. Management therefore consider the stage 2 threshold to be a critical accounting judgement in the determination of ECL.

Given the short-term nature of lending in the home credit division, the difference between the 12-month ECL and lifetime losses is minimal; therefore this judgement applies only to the branch-based and Guarantor Loans Divisions.

Key sources of estimation uncertainty:

Amounts receivable from customers

The Group assesses its portfolio of amounts receivable from customers for ECL 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 ECL policy:

Branch-based lending and guarantor loans

- Incorporation of macroeconomic data: establishing the number and relative weightings of macroeconomic scenarios for each type of product/market and determining the macroeconomic information relevant to each scenario. The Group incorporates macroeconomic information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECL. This is achieved by developing a number of potential economic scenarios and modelling ECL for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted ECL. 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. As per note 1, this is only applicable to the branch-based lending and Guarantor Loans Divisions as due to the nature of the home credit industry and based on historical evidence, management has determined that the effect of traditional macroeconomic downside indicators on home credit is minimal.

Home credit

- 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.

Sensitivity analysis of amounts receivable from customers – key sources of estimation uncertainty:

Macroeconomic data

For branch-based lending and guarantor loans the Group has performed sensitivity analysis on the key macroeconomic variables. The model used reflects a blended outcome based on four macroeconomic scenarios of base, downside severe stress, downside stress and positive (refer to note 1 for further detail), with which specified weightings are applied. The macroeconomic scenarios are reviewed no less than twice annually.

As summarised below, the outputs demonstrate the impact of changing the probability weightings of the scenarios adopted on the loan loss provisioning figures. The first sensitivity is based on optimistic scenario weightings, the second sensitivity considered by management is to be the most extreme scenario in the current economic environment. This is because it considers the impact of a 50% severe downside stress weighting which assumes a stress impact on GDP, CPI, HPI, interest rates and unemployment variables worse than what was seen during the 2008 financial crisis. These sensitivities do not take into account any impact of COVID-19, refer to subsequent events note 34 for assessment of impact of COVID-19 on macroeconomic weightings.

Branch-based lending

Macroeconomic weightings	Weighting	Impact on ECL £000
Current:		
Base	50%	
Downside stress	30%	
Severe downside stress	15%	
Positive	5%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Optimistic:		
Base	85%	
Downside stress	0%	
Severe downside stress	10%	
Positive	5%	
Impact on ECL		1,277
Pessimistic:		
Base	50%	
Downside stress	0%	
Severe downside stress	50%	
Positive	0%	
Impact on ECL		(2,923)

Guarantor loans

Macroeconomic weightings	Weighting	Impact on ECL £000
Current:		
Base	50%	
Downside stress	30%	
Severe downside stress	15%	
Positive	5%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Optimistic:		
Base	85%	
Downside stress	0%	
Severe downside stress	10%	
Positive	5%	
Impact on ECL		(22)
Pessimistic:		
Base	50%	
Downside stress	0%	
Severe downside stress	50%	
Positive	0%	
Impact on ECL		(157)

2. Critical accounting judgements and key sources of estimation uncertainty – Group continued

As per note 1 to the financial statements, due to the nature of the home credit industry and based on historical evidence, management has determined that the effect of traditional macroeconomic downside indicators is minimal and therefore a macro economic adjustment is currently not necessary.

Probability of default and loss given default

Home credit division

The home credit division policy for provisioning uses historical cash flow data to gain the best view of prospective collections performance from receivables held on the balance sheet, which are discounted at the product's EIR to value the receivables at balance sheet date. As per note 1, this methodology encapsulates PD, EAD and LGD collectively. Furthermore, given the short-term nature of lending in the home credit division, the difference between 12-month ECL and lifetime expected losses is minimal, Recent experience has shown that a 5% increase or decrease in expected cash collections is possible in a 12-month horizon and if collections performance were to vary by such an amount, the provision recognised would change by -/+ 7.6%, effectively changing the receivable valuation by 5%.

The suitability of the 5% sensitivity has been reviewed and considered appropriate given historical performance.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount to which goodwill has been allocated. The recoverable amount is the higher of its VIU or its fair value less cost to sell.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Whilst in prior years the assessment of impairment of goodwill has reflected a number of key estimates such as forecast earnings, discount rates applied and forecast market multiples used, in the current year the Group has utilised actual earnings and actual price earnings multiples in order to determine recoverable amount of the CGUs. As a result, the key assumptions and inputs which have estimation uncertainty in the current year are the use of historical earnings and historical multiples in determining recoverable amounts as the Group cannot be certain that this is what a market participant would use to value the respective CGUs. Whilst not considered a key source of estimation uncertainty, the Group notes that disposal costs have been assumed at 2% and that the impact of a change in rate would be immaterial to recoverable amount calculated. Refer to note 15 for detailed goodwill analysis as at 31 December 2019.

As described above, the use of historical earnings and multiples to derive a valuation for the three CGUs represents a key source of estimation uncertainty. A sensitivity analysis of the multiple shows that a 10% lower historical multiple would have resulted in an additional £8.3m of impairment to the branch-based lending goodwill asset. As at 31 December 2019, the goodwill and intangible assets related to the Guarantor Loans Division have been fully written-off. For home credit a 10% lower historical multiple would have reduced headroom remaining between carrying value and recoverable amount in home credit by £5.9m as at 31 December 2019. A 10% higher historical multiple used would have resulted in a £8.3m lower impairment being recognised on the branch-based lending goodwill asset and £1.2m lower impairment recognised on the Guarantor Loans Division's goodwill and intangible assets. The Group notes that the onset of COVID-19, whilst a non-adjusting post-balance sheet event, could have a material impact on the impairment of goodwill subsequent to 31 December 2019. Refer to subsequent events note 34 for further information.

Key sources of estimation uncertainty – Company

Impairment of investment in subsidiaries

Determining whether investment in subsidiaries is impaired requires an estimation of the recoverable amount. The recoverable amount of the investment in subsidiaries was determined by reference to the recoverable amounts of all CGUs calculated as part of the goodwill assessment, with the total recoverable amount calculated compared against the carrying amount of the Company's investment. This approach is considered reasonable since the Group structure means that the CGUs tested for impairment comprise the principal trading subsidiaries of the Company.

The Group tests the investment in subsidiaries annually for impairment or more frequently if there are indications that it may be impaired. The assessment of recoverable amount and subsequent impairment of investment in subsidiaries reflects the same approach as detailed in the goodwill impairment assessment.

Applying the same sensitivities described for goodwill, our analysis shows that 10% lower historical multiple would have resulted in additional £15.4m impairment to investment in the Company, whilst a 10% higher multiple use would have reduced the impairment recognised by £15.4m.

3. Changes in accounting policies

In the current year, the Group, for the first time, has applied IFRS 16 Leases. The date of initial application of IFRS 16 for the Group was 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group is not party to any leases where it acts as a lessor, but the Group does have a large number of material property and vehicle/ equipment leases.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

3.1 Accounting policies under IFRS 16 Leases

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (less than £5,000). For these leases, the Group recognises the lease payments as an operating expense (included within administrative expenses in the consolidated statement of comprehensive income) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the EIR method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. The Group does not hold any inventories as at 31 December 2019.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group does not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The Group does not have any lease payments which fall under the definition of variable lease payments.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has used the practical expedient which allows the recognition of a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within administrative expenses in the consolidated statement of comprehensive income.

3.2 Approach to transition on 1 January 2019

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(i). Under IFRS 16.C8(b)(i), right-of-use assets are calculated as if the Standard applied at lease commencement, but discounted using the borrowing rate at the date of initial application.

The classification of cash flows will also be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 9.5%.

3. Changes in accounting policies continued

Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019. As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- right-of-use assets have been adjusted by the carrying amount of any onerous lease provisions at 31 December 2018 instead of performing impairment reviews under IAS 36; and
- hindsight has been used in determining the lease term.

Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Applying IFRS 16, for all leases (except short-term and low-value leases – see 3.1), the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments as described in 3.1.

Lease incentives (e.g. rent free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16 the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income, whereas under IAS 17 operating leases previously gave rise to a straight-line expense in the administrative expenses line within the consolidated statement of comprehensive income.

Under IFRS 16 the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion and interest portion (presented within financing activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

3.3 Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Any provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-to-use assets and lease liabilities. The Group has chosen to use the table below to set out the adjustments recognised at the date of initial application of IFRS 16.

Condensed consolidated statement of financial position

	31 Dec 2018 As restated £000	IFRS 16 adjustment £000	1 Jan 2019 Restated £000
Non-current assets			
Right-of-use asset	–	11,004	11,004
Deferred tax asset	230	60	290
Total increase in assets		**11,064**	
Current liabilities			
Lease liability	–	1,528	1,528
Trade and other payables	16,445	261	16,706
Non-current liabilities			
Lease liability	–	9,571	9,571
Total increase in liabilities		**11,360**	
Equity			
Retained loss	(61,635)	(295)	(61,930)

Of the total right-of-use assets of £11m recognised at 1 January 2019, £10.4m related to leases of property and £0.6m to leases of motor vehicles. The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

	£000
Operating lease commitments disclosed under IAS 17 at 31 December 2018	10,403
Discounted using the lessee's incremental borrowing rate of 9.5% as at the date of initial application	(1,591)
(Less): short-term leases recognised on a straight-line basis as expense	(77)
(Less): low-value leases recognised on a straight-line basis as expense	(76)
Add: adjustments as a result of a different treatment of extension and termination options	2,439
Lease liabilities recognised at 1 January 2019	**11,099**

In terms of the consolidated statement of comprehensive income impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the year ended 31 December 2019, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated statement of comprehensive income:

	£000
Depreciation on right-of-use asset	**2,042**
Interest expense on lease liabilities	**1,059**
Variable lease payments (not depending on index or rate)	**–**
Short-term lease expense	**508**
Low-value lease expense	**120**
	3,729

4. Revenue

Revenue is recognised by applying the EIR to the carrying value of a loan. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Interest income	**183,657**	166,502
Fair value unwind on acquired loan portfolio	**(2,873)**	(7,678)
Total revenue	**180,784**	158,824

5. Operating profit/(loss) for the year is stated after charging/(crediting):

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Depreciation of property, plant and equipment (note 17)	**1,827**	1,519
Depreciation of right-of-use asset (note 18)	**2,042**	–
Amortisation and impairment of intangible assets (note 16)	**9,090**	9,913
Staff costs excluding agent commission[1] (note 10)	**50,975**	46,218
Rentals under operating leases	**742**	3,119
Profit on sale of property, plant and equipment	**(43)**	(45)

1 Agent commission for the year ended 31 December 2019 was £13.1m (2018: £14.7m). Refer note 1 for accounting policy.

6. Auditor's remuneration

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Audit services		
Fees payable to the Company's auditor for the audit of the Parent's annual financial statements	**228**	82
Fees payable to the Company's auditor and their associates for the audit of the subsidiaries of the Group	**553**	399
Other services pursuant to legislation	**–**	–
	781	481
Other services		
Audit related fees	**75**	63
Services relating to corporate finance transactions	**1,602**	–
Other	**123**	–
	1,800	63

6. Auditor's remuneration continued

Other includes certain agreed-upon procedures carried out for the Directors which are an independent attest service performed for the Board.

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 89.

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); guarantor loans (TrustTwo and George Banco); home credit (Loans at Home); 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	Guarantor loans[1] £000	Home credit £000	Central £000	**2019 Total £000**
Year ended 31 December 2019					
Interest income	93,002	29,820	60,835	–	**183,657**
Fair value unwind on acquired loan portfolio	–	(2,873)	–	–	**(2,873)**
Total revenue	93,002	26,947	60,835	–	**180,784**
Operating profit/(loss) before amortisation	29,653	5,895	9,102	(5,358)	**39,292**
Amortisation of intangible assets	–	–	–	(7,226)	**(7,226)**
Operating profit/(loss) before exceptional items	29,653	5,895	9,102	(12,584)	**32,066**
Exceptional items[2]	(332)	(737)	(221)	(79,293)	**(80,584)**
Finance cost	(17,355)	(7,338)	(2,116)	(649)	**(27,458)**
Profit/(loss) before taxation	11,966	(2,180)	6,765	(92,527)	**(75,976)**
Taxation	(2,752)	574	(1,432)	3,280	**(332)**
Profit/(loss) for the year	**9,214**	**(1,607)**	**5,333**	**(89,247)**	**(76,308)**

	Branch-based lending £000	Guarantor loans[1] £000	Home credit £000	Central £000	Consolidation adjustments[3] £000	**2019 Total £000**
Total assets	244,740	106,960	51,931	633,760	(556,709)	**480,681**
Total liabilities	(302,987)	–	(29,202)	(332,406)	307,525	**(357,070)**
Net assets	(58,247)	106,960	22,729	301,355	(249,184)	**123,611**
Capital expenditure	2,754	–	2,164	12	–	**4,929**
Depreciation of plant, property and equipment	1,428	–	356	43	–	**1,827**
Depreciation of right-of-use asset	1,240	–	673	129	–	**2,042**
Amortisation and impairment of intangible assets	400	–	1,442	38	7,211	**9,090**

1 The 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 £80.6m exceptional items in 2019 (2018: nil). Refer note 8 for further details.
3 Consolidation adjustments include the acquisition intangibles of £1.3m (2018: £8.5m), goodwill of £75.8 m (2018: £140.7m), fair value of loan book of £1.4m (2018: £4.3m) and the elimination of intra-Group balances.

	Branch-based lending £000	Guarantor loans £000	Home credit £000	Central £000	2018 Restated Total £000
Year ended 31 December 2018 as restated					
Interest income	79,579	21,748	65,175	–	166,502
Fair value unwind on acquired loan portfolio	(3,958)	(3,720)	–	–	(7,678)
Total revenue	75,621	18,028	65,175	–	158,824
Operating profit/(loss) before amortisation	22,315	3,791	6,714	(5,397)	27,423
Amortisation of intangible assets	–	–	–	(8,681)	(8,681)
Operating profit/(loss) before exceptional items	22,315	3,791	6,714	(14,078)	18,742
Exceptional items	–	–	–	–	–
Finance cost	(12,778)	(5,833)	(2,461)	(35)	(21,107)
Profit/(loss) before taxation	9,537	(2,042)	4,253	(14,113)	(2,365)
Taxation	(1,740)	89	(774)	2,483	58
Profit/(loss) for the year	7,797	(1,953)	3,479	(11,630)	(2,307)

	Branch-based lending £000	Guarantor loans £000	Home credit £000	Central £000	Consolidation adjustments £000	2018 Restated Total £000
Total assets	219,723	86,972	52,609	574,467	(442,959)	490,812
Total liabilities	(250,894)	–	(65,527)	(270,071)	303,136	(283,356)
Net assets	(31,171)	86,972	(12,918)	304,396	(139,823)	207,456
Capital expenditure	3,736	–	2,256	91	–	6,083
Depreciation of plant, property and equipment	989	81	382	67	–	1,519
Amortisation of intangible assets	199	36	997	8,681	–	9,913

The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

8. Exceptional items

During the year ended 31 December 2019, the Group incurred exceptional costs totalling £80.6m (including VAT) (2018: £nil). £12.8m of these costs related to fees and other costs associated with the offer to acquire Provident Financial plc on the terms set out in an offer document published on 9 March 2019, as well as the related proposal to demerge Loans at Home. The offer lapsed on 5 June 2019.

The significant decline in market multiples across the sector resulted in an impairment to the value of the goodwill assets of all three divisions in the Group's balance sheet. Whilst non-cash in nature, the impact is summarised as follows: £44.8m of the exceptional items reflect the write-down of the value of goodwill associated with Everyday Loans; £8.6m of the exceptional items reflect the write-down of the value of goodwill associated with guarantor loans; and £12.5m of the exceptional items reflect the write-down of the value of goodwill associated with Loans at Home. Further details are set out in note 15.

The remaining £1.9m of exceptional costs relates to management restructuring which took place across the divisions over the year (Loans at Home in January 2019 totalling £0.2m, branch-based lending and Guarantor Loans Division in November 2019 totalling £1.1m, and the removal of a Director at central in October 2019 totalling £0.6m).

9. Directors' remuneration

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Short-term employee benefits	**1,633**	1,409
Post-employment benefits	**85**	80
Termination benefits	**287**	–

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.

Miles Cresswell-Turner stepped down from his role as CEO of Everyday Loans Group at the end of April 2019 and returned as an Executive Director of Non-Standard Finance plc until 21 October 2019.

Refer to Directors' Remuneration Report for more detail on remuneration.

10. 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 Dec 2019 Number**	Year ended 31 Dec 2018 Number
Branch-based lending staff	**428**	319
Guarantor loans staff	**131**	104
Home credit staff	**313**	332
Central staff	**7**	7
	879	762

b) Employment costs

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Wages and salaries	**42,891**	39,261
Share based payment charge	**1,183**	1,157
Social security costs	**4,863**	4,198
Pension costs	**2,038**	1,602
	50,975	46,218

11. Finance cost

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Bank charges and interest payable	**(26,399)**	(21,110)
Lease finance costs under IFRS 16	**(1,059)**	–
Bank interest receivable	**–**	3
Finance cost	**(27,458)**	(21,107)

12. Loss per share

	Year ended 31 Dec 2019	Year ended 31 Dec Restated 2018
Retained loss attributable to Ordinary Shareholders (£000)	**(76,308)**	(2,307)
Weighted average number of Ordinary Shares at year ended 31 December	**312,126,220**	312,713,410
Basic and diluted loss per share (pence)	**(24.45)p**	(0.74)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 2019, nil shares were held in treasury (2018: 5,000,000 Ordinary Shares of the Company that were purportedly repurchased by the Company as at 31 December 2018 were cancelled on 30 July 2019).

	Year ended 31 Dec 2019 000s	Year ended 31 Dec 2018 000s
Weighted average number of potential Ordinary Shares that are not currently dilutive	**8,938**	10,967

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 SAYE schemes. The amount is based upon the number of shares that would be issued if 31 December 2019 was the end of the contingency period.

13. Taxation

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 Restated £000
Current tax charge		
Current tax	**2,321**	2,336
Prior period adjustment to current tax	**(916)**	–
Total current tax charge	**1,405**	2,336
Deferred tax credit	**(1,178)**	(2,395)
Prior period adjustment to deferred tax	**104**	–
Total tax charge/(credit)	**332**	(58)

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 Dec 2019 £000	Year ended 31 Dec 2018 Restated £000
Loss before taxation	**(75,976)**	(2,365)
Tax on loss on ordinary activities at standard rate of UK corporation tax of 19% (2018: 19%):	**(14,435)**	(449)
Effects of:		
Fixed asset differences	**93**	97
Expenses not allowable for taxation	**15,506**	379
Share-based payments	**157**	58
IFRS 16 adjustments	**(51)**	–
Research and development tax credit	**–**	(7)
Chargeable gains/losses	**–**	(42)
Prior year adjustments	**–**	(32)
Adjustment to tax charge in respect of previous periods	**(916)**	–
Adjustment to tax charge in respect of previous periods – deferred tax	**104**	–
Corporation tax rate change	**(43)**	(69)
Deferred tax rate change	**(82)**	–
Changes in unrecognised deferred tax	**–**	7
Total tax charge/(credit)	**332**	(58)

Certain exceptional items and costs related to the offer to acquire Provident Financial plc (refer to note 8), impairment of goodwill, and costs related to the Group's SAYE and long-term incentive plans are included within 'expenses not allowable for taxation' due the nature of the transactions. There were £80.6m exceptional items in 2019 (2018: nil). Long-term incentive plan items disallowed relates to set-up costs and the fair value of the schemes at the date of grant totalling £0.8m (2018: £0.9m). Exceptional costs relating to the offer to acquire Provident Financial plc which have been disallowed are £11.0m. A further £65.9m (2018: £nil) of charges relating to the write-down of the value of goodwill associated with Loans at Home, Everyday Loans, and the Guarantor Loans Division, as well as the amortisation and write-down of intangibles of the during the year have also been disallowed.

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at a rate of 17%.

14. Dividends

The Group declared a half-year dividend of 0.7p per share in August 2019 (2018: 0.6p). As announced on 26 March 2020, the Board will not recommend or pay a final dividend in respect of the year ended 31 December 2019 (2018: 2 pence per share).

Whilst the goodwill impairment outlined above is non-cash in nature, together with the amortisation of acquired intangibles (also non-cash in nature), the prior year adjustment and other exceptional items, these charges have meant that the Company no longer has any distributable reserves. To address this, the Board is committed to completing a process, subject to shareholder and Court approval, to create sufficient distributable reserves so that the Company can resume the payment of cash dividends to shareholders as soon as it is appropriate to do so.

15. Goodwill – Group

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Opening balance	**140,668**	140,668
Accumulated impairment	**(65,836)**	–
Closing balance	**74,832**	140,668

The goodwill recognised represents the difference between the purchase consideration paid and the value of net assets acquired (including intangible assets recognised upon acquisition), less any accumulated impairment. Total goodwill as at 31 December 2019 comprised £27.7m (2018: £40.2m) related to the acquisition of Loans at Home, £47.1m (2018: £91.9m) related to the acquisition of Everyday Loans, and £nil (2018: £8.6m) related to the acquisition of George Banco.

Under IFRS 13, 'Fair Value Measurement', the fair value used in the goodwill impairment assessment is classified as Level 3.

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 at the year end has utilised actual price earnings ('PE') multiples of comparable companies as at 31 December 2019 and applied these to actual earnings for the financial year ended 31 December 2019. Refer to note 2 for sensitivity analysis of key sources of estimation uncertainty.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of each CGU. The recoverable amount is the higher of its fair value ('FV') less cost to sell or its VIU. The approach taken for each is detailed below.

Fair value less cost to sell

The calculation to determine the FV less cost to sell for each CGU uses earnings as at 31 December 2019 multiplied by the 31 December 2019 PE multiples for comparable companies. Earnings represents profit after tax before FV adjustments, amortisation of intangibles and exceptional items. Disposal costs have been estimated at 2%. As part of this assessment, we have applied PE multiples to 2019 profit after tax in order to determine management's best estimate of the FV to be attributed to each of the CGUs.

Value in use

The calculation to determine recoverable amount based on VIU uses the cash flows derived from earnings projections for the years ended 31 December 2020, 2021 and 2022, together with a terminal value based on the cash flow forecast for 2022 at a perpetuity growth rate. The resulting cash flow forecasts are then discounted at a discount rate appropriate to the CGU to produce a VIU to the Group.

Loans at Home goodwill assessment

In the 2018 Annual Report and Accounts, the Group had calculated the FV less costs to sell of Loans at Home to be in the range of £64.0m to £67.0m (headroom of between £2m and £5m from the carrying value) as at 31 December 2018. A key estimate driving this result was the 2019 forecast earnings where it was determined that a reduction of 3% to 8% would have necessitated an impairment to the value of the goodwill asset.

During the six months ended 30 June 2019, the Group recognised a £12.5m impairment loss in the Loans at Home goodwill asset. The factors leading to this impairment included the significant decline in peer group PE multiples since 31 December 2018, as well as uncertainties in the economic, market and regulatory environment. This reduced the Loans at Home goodwill asset from £40.2m to £27.7m as at 30 June 2019. For further detail refer to the Group's 2019 half-year results, a copy of which is available on the Group's website: **www.nsfgroupplc.com**.

15. Goodwill – Group continued

Since the impairment assessment made at 30 June 2019, the Group has calculated the FV less cost to sell to be above the carrying value of the CGU as at 31 December 2019. As noted earlier, this calculation applies PE multiples to actual earnings and therefore is not subject to estimation uncertainty which would arise from the use of forecast earnings and discount rates. The Group notes however that a 14% fall in the PE multiple applied to 2019 earnings would reduce headroom to £nil. As the FV less cost to sell calculation has resulted in a recoverable amount in excess of the carrying value of the CGU, it was not considered necessary to carry out a VIU calculation. We have concluded that based on our calculations, no further impairment to the Loans at Home goodwill asset is necessary beyond the £12.5m that was recognised and disclosed in the Group's results for the six months ended 30 June 2019.

Everyday Loans goodwill assessment

As at 31 December 2019, the Group performed a FV less cost to sell for the Everyday Loans CGU. The Group has calculated the FV less costs to sell to be below the carrying value by £44.8m. Whilst subject to funding, Everyday Loans is forecasting meaningful growth in future years, this change from the prior year is primarily due to the large decline in the PE multiple applied to the Everyday Loans earnings, with PE multiples across the non-standard finance sector environment during the year ended 31 December 2019 as well as uncertainties in the economic, market and regulatory environment as noted above. The Group notes that had the multiples remained at the level they were as at 31 December 2018, there would have existed headroom of £6.7m as at 31 December 2019. In accordance with IAS 36, recoverable amount represents the higher of FV less cost to sell and VIU. Due to the growing nature of the Everyday Loans CGU, whilst profit growth can be seen over the forecast period, this requires significant investment that in turn impacts cash flows. As a result, management have determined FV to be higher than VIU.

Guarantor loans goodwill assessment

As at 31 December 2019, the Group performed an annual impairment assessment and calculated the FV less cost to sell and VIU calculation for the guarantor loans CGU. The Group has calculated the FV less costs to sell to be below the carrying value by £10.6m. This impairment has been recognised in the form of a £8.6m goodwill write-off and a £2.0m write-off to remaining intangible assets (refer to note 16). This significant change from the prior year is due to a 44% decline in the PE multiple applied to the Guarantor Loans Division earnings following the significant decline in the PE multiples of the Group's largest competitor in the guarantor loans space and across the non-standard finance sector generally during the year ended 31 December 2019, as well as uncertainties in the economic, market and regulatory environment, as noted above.

In accordance with IAS 36, recoverable amount represents the higher of FV less cost to sell and VIU. As with the Everyday Loans CGU, whilst the size of the guarantor loans CGU's loan book and associated profitability is expected to grow strongly over the forecast period, this requires investment with the result that cash flows during this period are expected to be depressed and management have determined FV to be higher than VIU.

Refer to note 2 for sensitivities on key sources of estimation uncertainty. The Group notes that the onset of COVID-19, whilst a non-adjusting post-balance sheet event, could have a material impact on the impairment of goodwill subsequent to 31 December 2019. Refer to subsequent events note 34 for further information.

16. Intangible assets – Group

	Customer lists £000	Agent network £000	Brands £000	Broker relationships £000	Technology £000	LAH IT software development £000	Software[1] £000	Total £000
Cost								
At 1 January 2019	21,924	540	2,005	9,151	6,227	6,279	3,316	49,442
Additions	–	–	–	–	–	2,129	1,056	3,185
At 31 December 2019	**21,924**	**540**	**2,005**	**9,151**	**6,227**	**8,408**	**4,372**	**52,627**
Amortisation								
At 1 January 2019	19,559	540	1,235	5,837	4,152	1,372	2,270	34,965
Charge for the year	1,339	–	370	1,949	1,557	1,426	437	7,078
Impairment	647	–	–	1,365	–	–	–	2,012
At 31 December 2019	**21,545**	**540**	**1,605**	**9,151**	**5,709**	**2,798**	**2,707**	**44,055**
Net book value								
At 31 December 2019	**379**	**–**	**400**	**–**	**518**	**5,610**	**1,665**	**8,572**
At 31 December 2018	2,365	–	770	3,314	2,075	4,907	1,046	14,477

1 The cost and accumulated amortisation of software (with the exception of LAH IT software development) were previously presented in the property, plant and equipment note 17. The 2018 comparatives have been adjusted so that the cost and accumulated amortisation of software across the Group are included in intangible assets. The 1 January 2018 comparative for cost and accumulated amortisation of software reclassified from property, plant and equipment was £0.6m.

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 2019:

Intangible asset	**Carrying value as at 31 Dec 2019 £000**	Carrying value as at 31 Dec 2018 £000	Amortisation period remaining years and months
Everyday Loans' acquired customer list	**379**	835	10 months
Everyday Loans' credit-decisioning technology	**518**	2,075	4 months
Everyday Loans and TrustTwo brands	**400**	699	1 year 4 months
George Banco's acquired customer list	**–**	1,530	–
George Banco brand	**–**	70	–
George Banco's broker relationship	**–**	3,314	1 year
Loans at Home IT software development	**5,610**	4,907	3 years
Software	**1,665**	1,048	3 to 5 years

Intangibles assets – Company

	Software[1] £000	Total £000
Cost		
At 1 January 2019	103	103
Additions	12	12
At 31 December 2019	**115**	**115**
Depreciation		
At 1 January 2019	18	18
Charge for the year	22	22
At 31 December 2019	**40**	**40**
Net book value		
At 31 December 2019	**75**	**75**
At 31 December 2018	85	85

1 The cost and accumulated amortisation of Company software were previously presented in the property, plant and equipment note 17. The 2018 comparatives have been adjusted so that the cost and accumulated amortisation of software are included in intangible assets. The 1 January 2018 comparative for cost and accumulated amortisation of software reclassified from property, plant and equipment was £0.016m.

17. Property, plant and equipment – Group

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost					
At 1 January 2019	5,205	2,058	231	3,235	10,729
Additions	1,200	204	–	340	1,744
Disposals	(207)	(120)	(150)	(640)	(1,117)
At 31 December 2019	**6,198**	**2,142**	**81**	**2,935**	**11,356**
Depreciation					
At 1 January 2019	1,597	593	–	1,863	4,053
Charge for the year	820	196	54	757	1,827
Disposals	(207)	(119)	(112)	(640)	(1,078)
At 31 December 2019	**2,210**	**669**	**(58)**	**1,980**	**4,802**
Net book value					
At 31 December 2019	**3,988**	**1,473**	**139**	**956**	**6,556**
At 31 December 2018	3,608	1,465	231	1,372	6,677

17. Property, plant and equipment – Group continued

Property, plant and equipment – Company

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	**Total £000**
Cost				
At 1 January 2019	110	82	55	247
Additions	–	–	–	–
Disposals	–	(2)	–	(2)
At 31 December 2019	**110**	**80**	**55**	**245**
Depreciation				
At 1 January 2019	59	43	50	152
Charge for the year	22	16	5	43
Disposals	–	(1)	–	(1)
At 31 December 2019	**81**	**58**	**55**	**194**
Net book value				
At 31 December 2019	**29**	**22**	**–**	**51**
At 31 December 2018	51	39	5	95

18. Right-of-use ('ROU') asset – Group

	ROU Buildings £000	ROU Vehicles £000	**Total £000**
Cost			
At 1 January 2019	14,253	814	15,067
Additions	1,606	–	1,606
Disposals	–	–	–
At 31 December 2019	**15,860**	**814**	**16,673**
Depreciation			
At 1 January 2019	3,876	187	4,063
Charge for the year	1,843	199	2,042
Disposals	8	–	8
At 31 December 2019	**5,727**	**386**	**6,113**
Net book value			
At 31 December 2019	**10,133**	**428**	**10,560**
At 31 December 2018	–	–	–

Right-of-use asset – Company

	ROU Buildings £000	**Total £000**
Cost		
At 1 January 2019	647	647
Additions	–	–
Disposals	–	–
At 31 December 2019	**647**	**647**
Depreciation		
At 1 January 2019	356	356
Charge for the year	129	129
Disposals	–	–
At 31 December 2019	**485**	**485**
Net book value		
At 31 December 2019	**162**	**162**
At 31 December 2018	–	–

Refer to note 3 for a summary of the current year impacts of IFRS 16 on the statement of comprehensive income. Total cash outflow for leases for the year ended 31 December 2019 was £3.7m.

As described in note 3, the Group leases property and motor vehicles and the average lease term for property is ten years whilst for vehicles is three years. The lease term for the Company ROU asset is five years. There are no future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities.

The Group and Company's ROU assets have been assessed for impairment under IAS 36. The carrying amount of the ROU assets remains above the recoverable amount of ROU assets and no impairment has occurred in the year ended 31 December 2019.

19. 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
S.D. 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, United Kingdom	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

	£000
31 December 2017	212,336
Restatement for Founder Shares	255
31 December 2017 – as restated[1]	212,591
Share-based payment charge	664
31 December 2018– as restated[1]	213,255
Impairment of investment in subsidiaries	(117,525)
Vesting of subsidiary share based payment schemes	(734)
Share-based payment charge	690
31 December 2019	**95,686**

1 Refer footnotes 1 and 2 in the statement of financial position and statement of changes in equity for detail of restatements.

The Group tests the carrying value of its net investment in subsidiaries annually for impairment or more frequently if there are indications that the investment might be impaired. Determining whether an investment is impaired requires an estimation of the recoverable amount of each subsidiary. In line with IAS 36, the recoverable amount is the higher of its VIU or its FV less cost to sell.

In the nine months ended 30 September 2019, the Company recognised a £25m impairment loss in its investment in subsidiaries. Factors leading to this impairment included the impairment in the Loans at Home goodwill by the Group totalling £12.5m in the six months ended 30 June 2019 which resulted from the significant decline in PE multiples since 31 December 2018, as well as increased sector-wide risks to future cash flows and new originations which have arisen since 31 December 2018 in light of changes in the market and regulatory environment over the year. This impairment loss was determined by reference to the recoverable amounts of all CGUs calculated as part of the goodwill assessment, with the total recoverable amount compared against the carrying amount of the Company's investment in Non-Standard Finance Subsidiary Limited. This approach is considered reasonable since the Group structure means that the CGUs tested for impairment comprise the principal trading subsidiaries of the Company.

19. Investment in subsidiaries – Group continued

As at 31 December 2019, the Company recognised a further impairment loss in its investment in subsidiaries totalling £92.5m. This impairment follows the £44.8m impairment to Everyday Loans goodwill and £8.6m impairment to the guarantor loans goodwill and £2.0m write-off of intangible assets recognised in the current year. The impairment losses recognised continue to be as a result of the significant declines in the PE multiples of comparator companies in the non-standard finance market and increased uncertainty in the macroeconomic and regulatory environment seen since 31 December 2018. The £117.5m impairment of the Company's investment has been calculated as the difference between the recoverable amounts as calculated in line with methods described in note 15, and the carrying value of the investments.

Refer to note 2 for sensitivities around key sources of estimation uncertainty. The Group notes that the onset of COVID-19, whilst a non-adjusting post-balance sheet event, could have a material impact on the impairment of goodwill subsequent to 31 December 2019. Refer to subsequent events note 34 for further information.

20. Amounts receivable from customers – Group

	2019 £000	2018 Restated £000
Gross carrying amount	**410,849**	354,794
Loan loss provision	**(49,201)**	(44,135)
Amounts receivable from customers	**361,648**	310,659

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.

Included within the gross carrying amount above are unamortised broker commissions, see table below:

	2019 £000	2018 £000
Unamortised broker commissions	**14,311**	11,182
Total unamortised broker commissions	**14,311**	11,182

The FV of amounts receivable from customers are:

	2019 £000	2018 £000
Branch-based lending	**322,852**	274,291
Guarantor loans	**127,095**	112,157
Home credit	**60,668**	67,717
Fair value of amounts receivable from customers	**510,615**	454,165

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 which defines FV measurements as those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Maturity of amounts receivable from customers:	2019 £000	2018 Restated £000
Due within one year	**176,379**	112,027
Due in more than one year	**185,269**	198,631
Amounts receivable from customers	**361,648**	310,659

Analysis of receivables from customers

31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Branch-based lending	196,140	26,839	8,651	**231,631**
Guarantor loans	99,449	9,993	3,488	**112,930**
Home credit	35,472	16,442	14,375	**66,288**
Gross carrying amount	**331,061**	**53,274**	**26,514**	**410,849**
Branch-based lending	8,050	5,205	3,592	**16,848**
Guarantor loans	2,110	2,391	1,468	**5,969**
Home credit	1,844	11,115	13,425	**26,384**
Loan loss provision	**12,004**	**18,712**	**18,485**	**49,201**
Branch-based lending	188,091	21,633	5,059	**214,783**
Guarantor loans	97,339	7,601	2,021	**106,961**
Home credit	33,628	5,327	949	**39,904**
Net amounts receivable	**319,057**	**34,562**	**8,029**	**361,648**

31 December 2018 as restated	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Branch-based lending	173,396	17,076	6,271	196,744
Guarantor loans	78,136	10,010	2,058	90,204
Home credit	38,692	16,524	12,631	67,846
Gross carrying amount	290,224	43,609	20,960	354,794
Branch-based lending	7,432	3,560	3,091	14,083
Guarantor loans	921	1,643	668	3,232
Home credit	3,523	11,355	11,942	26,820
Loan loss provision	11,876	16,558	15,701	44,135
Branch-based lending	165,964	13,517	3,180	182,661
Guarantor loans	77,215	8,366	1,390	86,971
Home credit	35,169	5,169	688	41,026
Net amounts receivable	278,348	27,052	5,258	310,659

Analysis on movement on loan loss provision
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 loan loss provisions 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 loan loss provisions related to assets that were written-off during the period.
- Financial assets modified during the period.

The economic assumptions included in the Group's IFRS 9 model scenarios for branch-based lending and Guarantor Loans Division have been discussed in note 2.

The following tables explain the changes in the loan loss provision between the beginning and the end of the period:

For the year ended 31 December 2019
Branch-based lending

Loan loss provision	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**Total £000**
Loan loss provision as at 1 January 2019:	7,432	3,560	3,091	**14,083**
Changes in the loss provision attributable to:	–	–	–	**–**
New receivables originated or purchased	10,745	–	–	**10,745**
– Transfers from stage 1 to 2	(4,257)	4,257	–	**–**
– Transfers from stage 1 to 3	(2,887)	–	2,887	**–**
– Transfers from stage 2 to 1	44	(44)	–	**–**
– Transfers from stage 2 to 3	–	(1,567)	1,567	**–**
– Transfers from stage 3 to 2	–	9	(9)	**–**
– Transfers from stage 3 to 1	1	–	(1)	**–**
– Write-offs	–	–	(3,841)	**(3,841)**
Net re-measurement of ECL arising from transfer of stage	(77)	405	329	**657**
Change in ECL resulting from repayment of loans	(2,899)	(1,896)	(456)	**(5,250)**
Other movements	69	8	5	**82**
Derecognition of modified loans	(121)	473	20	**373**
Loan loss provision as at 31 December 2019	**8,050**	**5,205**	**3,592**	**16,848**

20. Amounts receivable from customers – Group continued

Guarantor loans

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2019:	921	1,643	668	**3,232**
Changes in the loss provision attributable to:	–	–	–	**–**
New receivables originated or purchased	3,131	–	–	**3,131**
– Transfers from stage 1 to 2	(1,402)	1,402	–	**–**
– Transfers from stage 1 to 3	(609)	–	609	**–**
– Transfers from stage 2 to 1	223	(223)	–	**–**
– Transfers from stage 2 to 3	–	(670)	670	**–**
– Transfers from stage 3 to 2	–	6	(6)	**–**
– Transfers from stage 3 to 1	1	–	(1)	**–**
– Write-offs	–	–	(921)	**(921)**
Net re-measurement of ECL arising from transfer of stage	(51)	615	606	**1,169**
Change in ECL resulting from repayment of loans	(133)	(367)	(93)	**(593)**
Other movements	–	–	–	**–**
Derecognition of modified loans	29	(14)	(64)	**(49)**
Loan loss provision as at 31 December 2019	**2,110**	**2,391**	**1,468**	**5,969**

Home credit

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2019:	3,523	11,355	11,942	**26,820**
Changes in the loss provision attributable to:				
New receivables originated or purchased	15,242	143	6	**15,391**
– Transfers from stage 1 to 2	(8,289)	8,289	–	**–**
– Transfers from stage 1 to 3	(14,110)	–	14,110	**–**
– Transfers from stage 2 to 1	32	(32)	–	**–**
– Transfers from stage 2 to 3	–	(5,473)	5,473	**–**
– Transfers from stage 3 to 2	–	5	(5)	**–**
– Transfers from stage 3 to 1	2	–	(2)	
– Write-offs	–	–	(16,871)	**(16,871)**
Net re-measurement of ECL arising from change in credit risk	5,444	(3,172)	(1,228)	**1,044**
Loan loss provision as at 31 December 2019	**1,844**	**11,115**	**13,425**	**26,384**

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 2019:	173,396	17,076	6,271	**196,744**
Changes in the gross carrying amount attributable to:	–	–	–	**–**
New receivables originated or purchased	172,524	–	–	**172,524**
– Transfers from stage 1 to 2	(29,982)	29,982	–	**–**
– Transfers from stage 1 to 3	(14,743)	–	14,743	**–**
– Transfers from stage 2 to 1	325	(325)	–	**–**
– Transfers from stage 2 to 3	–	(8,712)	8,712	**–**
– Transfers from stage 3 to 2	–	76	(76)	**–**
– Transfers from stage 3 to 1	32	–	(32)	**–**
– Write-offs	–	–	(19,159)	**(19,159)**
Changes due to modification that did not result in derecognition	–	(787)	(163)	**(950)**
Net repayments of loans	(106,854)	(9,405)	(150)	**(116,409)**
Other movements	–	–	(35)	**(35)**
Derecognition of modified loans	1,443	(1,067)	(1,460)	**(1,085)**
Gross carrying amount as at 31 December 2019	**196,140**	**26,839**	**8,651**	**231,631**

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 2019:	78,136	10,010	2,058	**90,204**
Changes in the gross carrying amount attributable to:	–	–	–	**–**
New receivables originated or purchased	75,014	–	–	**75,014**
– Transfers from stage 1 to 2	(9,331)	9,331	–	**–**
– Transfers from stage 1 to 3	(4,580)	–	4,580	**–**
– Transfers from stage 2 to 1	2,375	(2,375)	–	**–**
– Transfers from stage 2 to 3	–	(3,127)	3,127	**–**
– Transfers from stage 3 to 2	–	25	(25)	**–**
– Transfers from stage 3 to 1	35	–	(35)	**–**
– Write-offs	–	–	(5,213)	**(5,213)**
Changes due to modification that did not result in derecognition	–	(204)	(27)	**(231)**
Net repayments of loans	(39,846)	(3,670)	(318)	**(43,834)**
Other movements	(2,331)	(461)	(91)	**(2,883)**
Derecognition of modified loans	(23)	464	(568)	**(127)**
Gross carrying amount as at 31 December 2019:	**99,449**	**9,993**	**3,488**	**112,930**

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 2019:	38,692	16,524	12,631	**67,846**
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	77,408	387	17	**77,812**
– Transfers from stage 1 to 2	(12,344)	12,344	–	**–**
– Transfers from stage 1 to 3	(16,571)	–	16,571	**–**
– Transfers from stage 2 to 1	263	(263)	–	**–**
– Transfers from stage 2 to 3	–	(6,599)	6,599	**–**
– Transfers from stage 3 to 2	–	10	(10)	**–**
– Transfers from stage 3 to 1	14	–	(14)	**–**
– Write-offs	–	–	(20,416)	**(20,416)**
Net repayments of loans	(51,991)	(5,960)	(1,003)	**(58,954)**
Gross carrying amount as at 31 December 2019:	**35,472**	**16,442**	**14,375**	**66,288**

For the year ended 31 December 2018
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
Prior year adjustment[1]	1,623	1,309	884	3,817
Loan loss provision as at 1 January 2018 as restated	**5,869**	**3,520**	**2,722**	**12,111**
Changes in the loss provision attributable to:				
New receivables originated or purchased	10,562	–	–	10,562
– Transfers from stage 1 to 2	(3,675)	3,675	–	–
– Transfers from stage 1 to 3	(2,953)	–	2,953	–
– Transfers from stage 2 to 1	64	(64)	–	–
– Transfers from stage 2 to 3	–	(1,332)	1,332	–
– Transfers from stage 3 to 2[2]		5	(5)	–
– Transfers from stage 3 to 1[2]	1	–	(1)	–
– Write-offs	–	–	(2,676)	(2,676)
Net remeasurement of ECL arising from transfer of stage	(113)	564	(13)	439
Net repayments of loans	(2,463)	(1,698)	(374)	(4,535)
Derecognition of modified loans	118	(1,110)	(887)	(1,880)
Other movements	22	–	40	62
Loan loss provision as at 31 December 2018 as restated:	7,432	3,560	3,091	14,083

1 For detail on the prior year adjustment, refer to note 1.
2 The staging of the loan loss provision has been re-presented to reflect the formalisation of the curing policy during 2019 in order to more accurately reflect the staging of performing loans which has been previously flagged as 90 days past due.

20. Amounts receivable from customers – Group continued

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	275	1,731
Prior year adjustment[1]	87	146	38	271
Loan loss provision as at 1 January 2018 as restated	**652**	**1,037**	**313**	**2,002**
Changes in the loss provision attributable to:				
New receivables originated or purchased	1,869	–	–	1,869
– Transfers from stage 1 to 2	(997)	997	–	–
– Transfers from stage 1 to 3	(500)	–	500	–
– Transfers from stage 2 to 1	169	(169)	–	–
– Transfers from stage 2 to 3	–	(412)	412	–
– Transfers from stage 3 to 2[2]	–	12	(12)	–
– Transfers from stage 3 to 1[2]	1	–	(1)	–
– Write-offs	–	–	(521)	(521)
Net re-measurement of ECL arising from transfer of stage	(127)	376	77	326
Net repayments of loans	(174)	(317)	(48)	(539)
Derecognition of modified loans	3	56	(78)	(19)
Other movements	25	64	25	114
Loan loss provision as at 31 December 2018 as restated:	921	1,643	668	3,232

1 For detail on the prior year adjustment, refer to note 1.
2 The staging of the loan loss provision has been re-presented to reflect the formalisation of the curing policy during 2019 in order to more accurately reflect the staging of performing loans which have been previously flagged as 90 days past due.

Home credit

Loan loss provision[1]	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:				
New receivables originated or purchased	19,101	202	11	19,314
– Transfers from stage 1 to 2	(9,846)	9,846	–	–
– Transfers from stage 1 to 3	(16,974)	–	16,974	–
– 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	–	–	(17,551)	(17,551)
Net re-measurement of ECL arising from change in credit risk	5,416	(2,492)	(991)	1,933
Loan loss provision as at 31 December 2018	3,523	11,355	11,942	26,820

1 The 2018 staging movements of the loan loss provision has been re-presented to better categorise the flows of loans originating in the year.

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
Prior year adjustment[1]	888			888
Gross carrying amount as at 1 January 2018 as restated	**143,645**	**14,054**	**4,801**	**162,501**
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	130,611	–	–	130,611
– Transfers from stage 1 to 2	(23,363)	23,363	–	–
– Transfers from stage 1 to 3	(10,756)	–	10,756	–
– Transfers from stage 2 to 1	387	(387)	–	–
– Transfers from stage 2 to 3	–	(6,495)	6,495	–
– Transfers from stage 3 to 2[2]	–	44	(44)	–
– Transfers from stage 3 to 1[2]	38	–	(38)	–
– Write-offs	–	–	(13,358)	(13,358)
Net repayments of loans	(74,234)	(6,650)	47	(80,837)
Derecognition of modified loans	7,069	(6,853)	(2,389)	(2,173)
Gross carrying amount as at 31 December 2018 as restated:	173,396	17,076	6,271	196,744

1 For detail on the prior year adjustment, refer to note 1.
2 The staging of the loan loss provision has been re-presented to reflect the formalisation of the curing policy during 2019 in order to more accurately reflect the staging of performing loans which has been previously flagged as 90 days past due.

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
Prior year adjustment[1]	19	–	–	19
Gross carrying amount as at 1 January 2018 as restated	**53,358**	**6,799**	**1,223**	**61,380**
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	58,903	–	–	58,903
– Transfers from stage 1 to 2	(9,693)	9,693	–	–
– Transfers from stage 1 to 3	(2,514)	–	2,514	–
– 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[2]	–	87	(87)	–
– Transfers from stage 3 to 1[2]	47	–	(47)	–
– Write-offs	–	–	(2,970)	(2,970)
Net repayments of loans	(23,434)	(3,463)	(159)	(27,057)
Derecognition of modified loans	185	3	(240)	(52)
Gross carrying amount as at 31 December 2018 as restated:	78,136	10,010	2,058	90,204

1 For detail on the prior year adjustment, refer to note 1.
2 The staging of the loan loss provision has been re-presented to reflect the formalisation of the curing policy during 2019 in order to more accurately reflect the staging of performing loans which has been previously flagged as 90 days past due.

Home credit

Gross carrying amount – amounts receivable from customers[1]	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:				
New receivables originated or purchased	82,799	366	20	83,185
– Transfers from stage 1 to 2	(14,272)	14,272	–	–
– Transfers from stage 1 to 3	(20,046)	–	20,046	–
– 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	–	–	(21,412)	(21,412)
Net repayments of loans	(52,032)	(4,259)	(928)	(57,219)
Gross carrying amount as at 31 December 2018	38,692	16,524	12,631	67,846

1 The 2018 staging movements of the gross carrying amount has been re-presented to better categorise the flows of loans originating in the year.

Modification of amounts receivable from customers
Financial assets of branch-based lending and guarantor loans with a loss allowance measured at an amount equal to lifetime ECL of £2.2m (2018:£1.6m) were subject to non-substantial modification during the year, with a resulting loss of £1.2m (2018: £0.08m). The gross carrying amount of financial assets for which the loss allowance has changed to a 12 month ECL during the year amounts to £0.08m (2018: £0.03m).

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.

Branch-based lending

Financial assets (with loss allowance based on lifetime ECL) modified as at the balance sheet date	2019 £000	2018 restated £000
Gross carrying amount before modification	**40,622**	29,587
Loan loss provision before modification	**(5,630)**	(4,789)
Net amounts receivable before modification	**34,992**	24,798
Net derecognition gain/(loss)	**(230)**	252
Net amounts receivable after modification	**34,762**	25,050

Movement in derecognition loss in the year ended 31 December 2019 was £0.48m (2018: £0.098m).

20. Amounts receivable from customers – Group continued

Guarantor loans

Financial assets (with loss allowance based on lifetime ECL) modified as at the balance sheet date	2019 £000	2018 restated £000
Gross carrying amount before modification	**3,739**	3,304
Loan loss provision before modification	**(940)**	(744)
Net amounts receivable before modification	**2,799**	2,560
Net derecognition gain	**402**	333
Net amounts receivable after modification	**3,201**	2,893

Movement in derecognition gain in the year ended 31 December 2019 was £0.069m (2018: loss of £0.031m).

21. 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 2019. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

Group

At 31 December	FVTP&L assets/ liabilities £000	Amortised cost £000	Non-financial assets/ liabilities £000	2019 Total £000
Assets				
Cash and cash equivalents	–	14,192	–	**14,192**
Amounts receivable from customers	–	361,648	–	**361,648**
Current tax asset	–	460	–	**460**
Deferred tax asset	–	–	1,677	**1,677**
Trade and other receivables	–	2,183	–	**2,183**
Derivative assets	1	–	–	**1**
Goodwill	–	–	74,832	**74,832**
Intangible assets	–	–	8,572	**8,572**
Property, plant and equipment	–	–	6,556	**6,556**
Right-of-use assets	–	–	10,560	**10,560**
Total assets	**1**	**378,483**	**102,198**	**480,681**
Liabilities				
Bank borrowing	–	(317,590)	–	**(317,590)**
Lease liability	–	–	(11,105)	**(11,105)**
Other liabilities	–	(28,375)	–	**(28,375)**
Total liabilities	**–**	**(345,965)**	**(11,105)**	**(357,070)**

Reconciliation of liabilities arising from financing activities

	2018 £000	Opening balance sheet 1 Jan 2019 £000	Acquisitions £000	Cash flows £000	Reduction in prepaid debt fees £000	2019 £000
Bank loans	266,322	–	–	50,400	868	**317,590**
Lease liabilities	–	11,099	1,606	(1,600)	–	**11,105**

At 31 December	FVTP&L assets/ liabilities £000	Amortised cost £000	Non-financial assets/ liabilities £000	2018 restated Total £000
Assets				
Cash and cash equivalents	–	13,894	–	13,894
Loans and advances to customers	–	310,659	–	310,659
Current tax asset	–	–	–	–
Trade and other receivables	–	3,967	–	3,967
Derivative assets	241	–	–	241
Deferred tax asset	–	–	230	230
Goodwill	–	–	140,668	140,668
Intangible assets	–	–	14,477	14,477
Property, plant and equipment	–	–	6,677	6,677
Total assets	241	328,520	162,052	490,812
Liabilities				
Bank borrowing	–	(266,322)	–	(266,322)
Current tax liability	–	(675)	–	(675)
Deferred tax liability	–	–	–	–
Other liabilities	–	(16,359)	–	(16,359)
Total liabilities	–	(283,356)	–	(283,356)

Company

At 31 December	Amortised cost £000	Non-financial assets/ liabilities £000	**2019 Total £000**
Assets			
Cash and cash equivalents	194	–	**194**
Trade and other receivables	60,357	–	**60,357**
Property, plant and equipment and intangibles	–	126	**126**
Right-of-use asset	–	162	**162**
Investments	–	95,686	**95,686**
Total assets	**60,551**	**95,974**	**156,525**
Liabilities			
Other liabilities	–	(13,251)	**(13,251)**
Total liabilities	–	(13,251)	**(13,251)**

At 31 December	Amortised cost £000	Non-financial assets/ liabilities £000	2018 restated Total £000
Assets			
Cash and cash equivalents	393	–	393
Trade and other receivables	61,729	–	61,729
Property, plant and equipment and intangibles	–	180	180
Investments	–	213,255	213,255
Total assets	62,122	213,435	275,557
Liabilities			
Other liabilities	–	(4,786)	(4,786)
Total liabilities	–	(4,786)	(4,786)

22. Trade and other receivables – Group

	2019 £000	2018 £000
Other debtors	**437**	406
Corporation tax	**460**	–
Prepayments	**1,746**	3,561
	2,643	3,967

Trade and other receivables – Company

	2019 £000	2018 £000
Other debtors	**243**	238
Corporation tax	**857**	2,234
Amounts due from subsidiaries	**59,135**	59,135
Prepayments	**121**	122
	60,357	61,729

Amounts due from subsidiaries are non-interest bearing and repayable on demand.

The carrying value of trade and receivables is not materially different to the FV. As per note 1 to the financial statements, intercompany loans been assessed for impairment and the expected credit losses are not material.

23. Cash and cash equivalents – Group

	2019 £000	2018 £000
Cash at bank and in hand	**14,192**	13,894

Cash and cash equivalents – Company

	2019 £000	2018 £000
Cash at bank and in hand	**194**	393

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

24. Derivative asset

The Group holds a derivative asset in the form of an interest rate cap totalling £1,000 (2018: £241,000). The FV of the interest rate cap as at 31 December 2019 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.

25. Trade and other payables and provisions – Group

	2019 £000	2018 restated £000
Trade creditors	**8,394**	486
Other creditors	**3,626**	1,718
Current tax liability	**–**	675
Accruals and deferred income	**14,889**	13,566
Provisions (see detail below)	**1,466**	589
	28,375	17,034

Trade and other payables – Company

	2019 £000	2018 £000
Trade creditors	**7,573**	101
Other creditors	**129**	106
Amounts due to subsidiaries	**4,685**	3,755
Lease liability	**204**	–
Accruals	**660**	824
	13,251	4,786

Amounts owed to subsidiaries are non-interest bearing and repayable on demand. Refer to note 32 which details the Group's management of liquidity risk and note 31 which details related party transactions.

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

Provisions – Group

	Plevin £000	Dilapidations £000	Restructuring £000	**Total £000**
Opening at 31 December 2017	1,251	333	–	1,584
Charge during the year	–	64	–	64
Utilised	(1,020)	(39)	–	(1,059)
Balance at 31 December 2018	231	357	–	**589**
Charge during the year	285	845	170	**1,299**
Utilised	(423)	–	–	**(423)**
Balance at 31 December 2019	93	1,203	170	**1,466**

The Group provides for its best estimate of redress payable in respect of historical sales of payment protection insurance by considering the likely future uphold rate for claims in the context of confirmed issues and historical experience. 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 FOS. The deadline provided by the FCA for customers to make claims of 29 August 2019 has now passed.

Lease liability – Group

	At 31 Dec 2019 £000
Current lease liabilities	**1,830**
Non-current lease liabilities	**9,275**
Total lease liability	**11,105**

Maturity analysis	**At 31 Dec 2019 £000**
Not later than one year	**1,830**
Later than one year and not later than five years	**5,181**
Later than five years	**4,094**
Total lease liability	**11,105**

Lease liability – Company

	At 31 Dec 2019 £000
Current lease liabilities	**161**
Non-current lease liabilities	**43**
Total lease liability	**204**

Maturity analysis	**At 31 Dec 2019 £000**
Not later than one year	**161**
Later than one year and not later than five years	**43**
Later than five years	**–**
Total lease liability	**204**

Bank loans – Group

	2019 £000	2018 £000
Due within one year	**5,131**	5,184
Due in more than one year	**317,590**	266,322

During 2018, the Group entered into arrangement for the provision of one financing facility 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 Group's total debt facilities as at 31 December 2019 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 2019, £285.0m (2018: £235.0m) was drawn under the term loan facilities and £38.2m (2018: £37.8m) was drawn under the revolving loan facility. The term loan facility matures in August 2023 and the revolving loan facility matures in August 2022.

Maturity analysis of amounts due on external borrowings	**At 31 Dec 2019 £000**	At 31 Dec 2018 £000
Not later than one year	**25,208**	23,720
Later than one year and not later than five years	**419,527**	444,734
Later than five years	**–**	–
	444,734	468,454

25. Trade and other payables and provisions – Group continued

Amounts due on external borrowings excludes the amortisation of debt transaction costs and includes the interest and principal amounts due in on maturity of the term loan and revolving facilities in future periods.

Borrowings are recognised initially at FV and subsequently at amortised cost. The carrying value of other payables due in more than one year is not materially different to the FV. 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.

Contingent liabilities – Group

The Group recognises that there continues to be risks around claims management company activity in the non-standard lending sectors and incurs the cost of settling complaints as part of its normal business as usual activity. The Group has estimated that if it is unsuccessful in defending certain irresponsible lending complaints, the cost of settling such complaints is not material as at 31 December 2019. The Group continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard. However, it is possible that claims could increase in the future due to unforeseen circumstances such as COVID-19 and/or if FOS were to change its policy with respect to how such claims are adjudicated.

26. Deferred tax asset/(liability)

	£000
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	2,189
At 1 January 2018	(2,734)
Prior year adjustment – IFRS 9 (refer note 1)	541
At 1 January 2018 – as restated	(2,193)
Current year credit	2,423
At 31 December 2018 – as restated	**230**
Current year credit	**1,124**
Prior period adjustment to deferred tax	**(106)**
Reallocation from corporation tax liability	**429**
At 31 December 2019	**1,677**

A deferred tax liability was recognised on acquisition of Loans at Home, Everyday Loans (including TrustTwo) and George Banco in relation to intangible assets on which no tax deduction will be claimed in future periods for amortisation.

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

	2019 £000	2018 Restated £000
Accelerated tax depreciation	**(271)**	(140)
Recognition of intangible assets	**(919)**	(1,619)
Recognition of FV adjustments on amounts receivable at acquisition	**–**	(819)
Restatement of loan loss spreading	**(30)**	(35)
Other short-term timing differences	**98**	95
Recognition of deferred tax relating to share-based payments	**–**	26
Other losses and deductions	**62**	62
FRS 102 adoption	**72**	(4)
IFRS 16 transitional adjustment	**41**	–
IFRS 9 transitional adjustment	**2,624**	2,664
Net deferred tax asset/(liability)	**1,677**	230

27. 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.

During the year, the Company cancelled 5,070,234 shares and issued 457,974 shares (2018: nil).

Share movements

	Number
Balance at 31 December 2018	317,049,682
Cancellation of shares	**(5,070,234)**
Issue of shares	**457,974**
Balance at 31 December 2019	**312,437,422**

Non-Standard Finance plc sponsors the Non-Standard Finance plc 2019 Employee Benefit Trust ('EBT') which is a discretionary trust established on 21 October 2019 for the benefit of the employees of the Group. The Company has appointed Estera Trust (Jersey) Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2019, the EBT held nil (2018: nil) shares in the Company with a cost of £nil (2018: £nil) and a market value of £nil (2018: £nil). The shares have been acquired by the EBT to meet obligations under the long term plans as disclosed in note 29.

28. 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 2018	254,995
Capital reduction	**(75,000)**
Issue of shares	**24**
Balance at 31 December 2019	**180,019**

29. 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 2019 was nil (2018: 5m Ordinary Shares of the Company that were purportedly repurchased by the Company as at 31 December 2018 were cancelled on 30 July 2019). This equates to 0% (2018: 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
Acquired in the year	–
Disposed of on exercised options	**(3,459)**
Balance at 31 December 2019	**–**

Founder Shares scheme

The Founders have committed £255,000 of capital in the Group in the form of 100 Founder Shares in Non-Standard Finance Subsidiary Limited. 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 purchase price for exercise of this Founder Shares 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.

29. Other reserves continued

The FV of the share options was assessed to be £255,000 and this has been recognised as equity in other reserves in the financial statements.

During the course of 2019, a change of control provision was triggered on the departure of Miles Cresswell-Turner and the Founder Shares vested in full. However, following discussions with the holders, management team and shareholders, it was agreed that the Founder Shares would be subject to a further performance condition under which:

- the Company's share price must reach £1.10 within five years of 9 October 2019; or
- there is a change of control.

As Miles Cresswell-Turner was departing the Company, it was agreed that seven of his 25 Founder Shares (28% of his Founder Shares) would not be subject to these new performance conditions and he exercised his option over these Shares in exchange for 387,740 shares in Non-Standard Finance plc on 21 October 2019. The balance of his remaining 18 Founder Shares will be subject to the new performance condition.

No shares were remaining to the Directors during the year ended 31 December 2019 (2018: nil).

Share-based payments

Equity-settled share option schemes

During the year ended 31 December 2019, 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 (SAYE scheme). As at 31 December 2019, the Loan at Home Long-Term Incentive Plan and Everyday Loans Group Long-Term Incentive Plan had both reached the end of their vesting period, no options were exercised.

a) Movements in the period

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 Ordinary 'C' 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 2018	62.5%	9.4%	–
Options granted	–	–	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2018 and 31 December 2019	**62.5%**	**9.4%**	**–**
Exercisable at 31 December 2018 and 31 December 2019	**–**	**–**	**–**

Awards in the form of Ordinary 'C' Shares:

	Number	Percentage of growth above £1.10 share price	Exercise price
Outstanding at 1 January 2018	375	5.6%	–
Shares issued	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Outstanding at 31 December 2018 and 31 December 2019	**375**	**5.6%**	**–**
Vested at 31 December 2018 and 31 December 2019	**–**	**–**	**–**

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 are entitled to a 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 31 December 2017 and 31 December 2018	100%	5%	–
Options granted			–
Lapsed	(100%)	(5%)	–
Exercised	–	–	–
Outstanding at 31 December 2019	**–**	**–**	**–**
Exercisable at 31 December 2019	**–**	**–**	**–**

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

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 2018	85.1%	4.3%	–
Options granted	14.9%	0.7%	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2018	100%	5%	–
Options granted			–
Lapsed	(100%)	(5%)	–
Exercised	–	–	–
Outstanding at 31 December 2019	**–**	**–**	**–**
Exercisable at 31 December 2019	**–**	**–**	**–**

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

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 2018	100%	7.35%	–
Options granted	–	–	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2018	100%	7.35%	–
Options granted	–	–	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2019	**100%**	**7.35%**	**–**
Exercisable at 31 December 2019	**–**	**–**	**–**

29. Other reserves continued

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 Oct 2017		Granted on 14 May 2018	
	Number	Exercise price (£)	Number	Exercise price (£)	Number	Exercise price (£)
Outstanding at 1 January 2018	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
Options granted						
Lapsed	(343,862)	–	(463,283)	–	(1,895,072)	–
Exercised	–	–	–	–	–	–
Outstanding at 31 December 2019	**263,594**	**0.5606**	**372,926**	**0.606**	**1,193,923**	**0.495**
Exercisable at 31 December 2019	**–**	**–**	**–**	**–**	**–**	**–**

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 FV of the plan is £1.61m spread over the vesting period and will be equity-settled. A charge of £0.483m (2018: £0.549m) was recognised in the 2019 financial year. The following information is relevant in the determination of the FV:

	15 Sep 2017	19 Sep 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%

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 FV of the awards made in December 2017 is £0.279m spread over the vesting period.

A charge of £0.134m (2018: £0.144m) was recognised in the 2019 financial year. The following information is relevant in the determination of the FV:

	20 Dec 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%

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

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 FV of the awards made in March/April 2017, December 2017 and May 2018 is £0.455m spread over the vesting period. A charge of £0.153m (2018: £0.130m) was recognised in the 2019 financial year. The following information is relevant in the determination of the FV:

	6 Mar and 4 Apr 2017	4 Dec 2017 and 14 May 2018
Valuation method	Monte Carlo	Monte Carlo
Equity value at grant date	£182.1m	£182.1m
Exercise price	£0	£0
Expected volatility	25%	34%
Expected life	2.82 years	2.1 years
Expected dividend yield	0%	0%
Risk-free interest rate	0.14%	0.48%

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

Guarantor Loans Division Long-Term 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 FV of the awards made in April 2018 is £0.248m spread over the vesting period. A charge of £0.092m (2018: £0.064m) was recognised in the 2019 financial year. The following information is relevant in the determination of the FV:

	18 Apr 2018
Valuation method	Monte Carlo
Equity value at grant date	£37.5m
Exercise price	£0
Expected volatility	35%
Expected life	2.7 years
Expected dividend yield	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 three-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 FV of the awards made in June 2017 is £0.213m spread over the vesting period. The FV 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 FV of the awards made in May 2018 which do not qualify for modification treatment is £0.276m spread over the vesting period. The FV of those awards qualifying for modification treatment is £0.061m spread over the vesting period. A charge of £0.309m (2018: £0.268m) was recognised in the year ended 31 December 2019.

The following information is relevant in the determination of the FV:

	7 Jun 2017	6 Oct 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%

There have been no new sharesave plans during the year ended 31 December 2019.

30. Net cash used in operating activities – Group

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 Restated £000
Operating profit/(loss)	**(48,518)**	18,742
Taxation paid	**3,067**	(1,164)
Depreciation	**3,869**	1,772
Share-based payment charge	**1,183**	1,157
Amortisation of intangible assets	**7,078**	9,661
Intangible assets impairment loss	**2,517**	
Goodwill impairment loss	**65,837**	–
Fair value unwind on acquired loan book	**2,873**	7,678
Profit on disposal of property, plant and equipment	**(16)**	(45)
Increase in amounts receivable from customers	**(54,367)**	(66,138)
Decrease/(increase) in derivative asset	**240**	(241)
Decrease/(increase) in receivables	**(399)**	(2,418)
(Decrease)/increase in payables and provisions	**709**	(3,767)
Cash used in operating activities	**(15,927)**	(34,763)

Net cash used in operating activities – Company

	Year ended 31 Dec 2019 £000	Year ended 31 Dec 2018 £000
Operating loss	**(134,198)**	(5,397)
Depreciation	**195**	69
Share-based payment charge	**494**	818
Impairment of investment	**117,526**	
Decrease in receivables	**2,614**	280
Increase in payables	**8,262**	3,476
Cash used in operating activities	**(5,108)**	(754)

31. 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 £13.5m from its subsidiary undertakings during the year (2018: £10.2m). The Group receives charges from and makes charges to these related parties in relation to shared costs, staff costs and other costs incurred on their behalf. As at 31 December 2019, the Company owed £0.16m to its subsidiary undertaking S.D. Taylor Limited in relation to employee costs for the year ended 31 December 2019 (2018: £nil) and £0.07m to its subsidiary undertaking Everyday Loans Limited in relation to Group relief tax charges. The Company also received £0.7m paid in advance from its subsidiary undertaking Everyday Loans Limited in relation to the recharges described above. Intra-Group transactions between the Company and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation. Please refer to note 22 for the year-end amounts due from subsidiaries to the Company and note 25 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 £5,000 to Loan Smart (2018: £45,000) and has a debtor balance of £85,500 as at 31 December 2019 for a loan to the charity (2018: £80,500). Amounts owed to Non-Standard Finance plc are non-interest bearing and repayable on demand. Since 31 December 2020, Loan Smart has received donations totalling £85,500 and has therefore repaid its outstanding loan balance to the Company.

Three Directors are members of the Non-Standard Finance plc Long-Term Incentive Plan as detailed in note 29. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 93 to 113.

32. Financial risk management – 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 EIR on financial assets of the Group at 31 December 2019 was estimated to be 74% (2018: 80%).

The average EIR on financial liabilities of the Group at 31 December 2019 was estimated to be 9% (2018: 9%).

Market risk

Market risk is the risk that the FV or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk – interest rate risk, currency risk and other prices risk.

The Group does not undertake position taking or trading books of this type. The Group's exposure is primarily to the risk of changes in interest rates.

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 EIR on financial liabilities.

The Group is exposed to movements in LIBOR rates on its external borrowings. A 1% movement in the interest rate applied to financial liabilities during 2019 would not have had a material impact on the Group's result for the year.

There is minimal interest rate risk on amounts receivable from customers as interest rates are fixed.

Credit risk

The Group's credit risk inherent in amounts receivable from customers is reviewed as part of the impairment assessment process as per note 20. 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's assessment to determine whether credit risk has increased significantly since initial recognition is outlined in note 1 to the financial statements.

The tables below present information in line with how credit risk is monitored and assessed by the Group by their respective credit committees. Within our branch-based lending division, credit risk is monitored by the use of defined score bands ranging from A1-A9. The Guarantor Loans Division by homeowner/non-homeowner status, and weeks past due within the home credit division. This analysis assists management with identifying and monitoring credit risk within its customer base:

As at 31 December 2019

Branch-based lending

Year ended 31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
A1-A3	142,939	15,912	3,953	162,805
A4-A6	42,919	8,512	3,302	54,733
A7-A8+	10,282	2,414	1,396	14,092
Total gross receivables	**196,140**	**26,839**	**8,651**	**231,631**
Loan loss provision	**(8,050)**	**(5,205)**	**(3,592)**	**(16,848)**
At 31 December 2019	**188,091**	**21,633**	**5,059**	**214,783**

32. Financial risk management – Group continued

Guarantor loans[1]

Year ended 31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Homeowner	31,957	2,487	615	35,060
Non-homeowner	66,263	7,352	2,819	76,434
Total gross receivables	**98,220**	**9,839**	**3,435**	**111,493**
Loan loss provision	**(2,110)**	**(2,392)**	**(1,468)**	**(5,969)**
At 31 December 2019	**96,110**	**7,447**	**1,967**	**105,523**

1 Guarantor loans excludes FV adjustments of £1.4m.

Home credit[1]

Year ended 31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Up to 1 in the last 13 weeks missed	28,256	–	–	28,256
1 to 4 in the last 13 weeks missed	7,216	–	–	7,216
4 to 8 in the last 13 weeks missed	–	5,288	27	5,315
8-13 in the last 13 weeks missed	–	11,153	913	12,066
13 in the last 13 weeks missed	–	–	13,434	13,434
Total gross receivables	**35,472**	**16,442**	**14,375**	**66,288**
Loan loss provision	**(1,844)**	**(11,115)**	**(13,425)**	**(26,384)**
At 31 December 2019	**33,628**	**5,327**	**949**	**39,904**

1 Home credit make weekly collections.

As at 31 December 2018

Branch-based lending

Year ended 31 December 2018[1]	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
A1-A3	125,379	9,671	2,566	137,617
A4-A6	38,302	5,619	2,551	46,472
A7-A8+	9,715	1,786	1,154	12,655
Total gross receivables	173,396	17,076	6,271	196,744
Loan loss provision	(7,432)	(3,560)	(3,091)	(14,083)
At 31 December 2018	165,964	13,517	3,180	182,662

1 2018 credit risk tables have been re-presented according to risk bands as it provides improved clarity of the risks present in the book

Guarantor loans[1]

Year ended 31 December 2018[2]	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Homeowner	22,629	2,153	372	25,154
Non-homeowner	51,911	7,268	1,560	60,740
Total gross receivables	74,540	9,421	1,933	85,894
Loan loss provision	(921)	(1,643)	(668)	(3,232)
At 31 December 2018	73,619	7,778	1,265	82,662

1 Guarantor loans excludes FV adjustments of £4.3m. 2018 credit risk tables have been re-presented according to homeowner status as it provides improved clarity of the risks present in the book.

Home credit

Year ended 31 December 2018	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Up to 1 in the last 13 weeks missed	29,726	–	–	29,726
1 to 4 in the last 13 weeks missed	8,967	–	–	8,967
4 to 8 in the last 13 weeks missed	–	5,848	22	5,870
8-13 in the last 13 weeks missed	–	10,676	643	11,319
13 in the last 13 weeks missed	–	–	11,963	11,963
Total gross receivables	38,692	16,524	12,631	67,846
Loan loss provision	(3,523)	(11,355)	(11,942)	(26,820)
At 31 December 2018	35,169	5,169	688	41,026

No individual customer contributed more than 10% of the revenue for the Group. For all divisions, there does not exist a concentration of credit risk as loans are to individual customers geographically spread across the UK. Individual loans are also small compared to the total loan book.

Trade and other receivables owed by external parties and cash at bank are not considered to have a material credit risk as all material balances are due from investment grade banking counterparties. Impairment of intercompany receivables is not material and has been assessed at note 1.

Capital risk management

The Board of Directors assesses the capital needs of the Group on an ongoing basis and approves all capital transactions. The capital structure of the Group consists of net debt (borrowings after deducting cash and bank balances) and equity of the Group (comprising capital, reserves, retained earnings and non-controlling interests as disclosed in notes 26 to 28). 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 impact of COVID-19 on the loan-to-value covenants for the Group's debt facilities remains materially uncertain leading to a risk that the Group will be unable to access its facilities and this is reflected in the Group's going concern and Viability Statement on pages 87 and 90.

The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due.

Solvency risk

This is the risk that the Group's balance sheet becomes insolvent. The assessment of this has been reflected in the Group's going concern and viability statement on pages 87 and 88.

33. Distributable reserves of the Parent Company

In April 2019 it was identified that on account of certain technical infringements regarding historic distributions, in particular a transaction between the Group and certain subsidiary entities which had resulted in a circularity issue between the entities and following an intercompany dividend of £11 million in June 2016, none of the entity's distributions to shareholders since incorporation to 2018 were made out of distributable profits. In order to rectify this issue, on 30 July 2019 the Company effected a capital reduction which consisted of: (i) a cancellation of 5,070,234 ordinary shares in the Company that were purportedly purchased through the Company's share buy-backs made between 2017 and 2019 but which, as a result of certain infringements of the Companies Act 2006, were not validly purchased; and (ii) the reduction of the amount of £75 million standing to the credit of the Company's share premium account.

At 31 December 2019, the Company had no distributable reserves.

34. Subsequent events

On 10 March 2020, the Group entered into a new, six-year securitisation facility totalling £200m, of which £15m has been drawn. The Group notes that as at the date of signing, there has been a breach of portfolio performance covenants in relation to the securitisation facility, thereby preventing us from drawing down further from this facility. This has arisen as a result of the impact of COVID-19 on the Guarantor loan book. Recognising the portfolio performance breach is as a result of factors beyond our control, a temporary waiver has been granted by Ares for this breach covering up to 29 June 2020 to allow time for permanent changes to be agreed. There have been no other breaches in this facility. Compliance with financial covenants is considered in the Group's going concern and viability statement on pages 87 to 92. For accounting purposes, the Group retains substantially all the risks and rewards associated with ownership of assets transferred into the securitisation vehicle and as the vehicle is controlled by the Group, it will be consolidated into the Group financial statements for the year ended 31 December 2020. This event does not impact the 31 December 2019 financial statements.

Since 31 December 2019, there has been a global outbreak of COVID-19 which continues to have a significant impact on businesses across the world. Each of the Group's three divisions is continuing to trade in an unprecedented business environment. It is expected that as a result of the pandemic, the Group will experience a reduction in income from lending activities, together with increased ECL. The Group considered the impact of COVID-19 on the carrying value of assets and liabilities in the consolidated statement of financial position. Whilst the overall impact of COVID-19 cannot be reliably estimated at this time, the Group assessed its key sensitivity was in relation to ECL on amounts receivable from customers and goodwill impairment.

Considering the impact on goodwill of a further decline in market multiples resulting from COVID-19, the Group notes that this could result in further goodwill impairment post 31 December 2019. The Group has identified that on the basis of actual earnings for the year ended 31 December 2019, a 1% drop in price earnings multiples would result in c.£0.8m of additional impairment of goodwill at the branch-based lending division, and a reduction in the existing headroom in relation to the home credit division goodwill by £0.6m. As at 31 December 2019, total goodwill in relation to the Guarantor Loans Division has been fully written-off.

The estimate of ECL at 31 December 2019 was based on macroeconomic assumptions which did not include nor anticipate the unprecedented impact of the COVID-19 pandemic. The ECL sensitivity to reasonably possible changes in those assumptions outside of COVID-19 is set out at note 2. Considering the impact on ECL as a result of COVID-19, it is anticipated that this would result in increased ECL driven by customer repayment behaviours as well as a more pessimistic macroeconomic weighting being applied to the provisioning model (in the form of an increase to the severe downside weighting). As part of its viability assessment, the Group assessed a number of macroeconomic scenarios which reflect economic developments since the reporting date. The Group recognises that whilst the severity of the impact of COVID-19 on the economy is uncertain, it is likely to result in disruption in the form of a recession and therefore require an increase in the severe downside weightings on which ECL is calculated. The sensitivity of the loan loss provision as at 31 December 2019 to a more pessimistic economic outlook resulting from COVID-19 is detailed as follows:

Home credit

As detailed in note 2, due to the nature of the home credit industry and based on historical evidence, management has determined that the effect of traditional macroeconomic downside indicators is minimal.

Branch-based lending and Guarantor Loans Division

The Group has assessed its macroeconomic assumptions used at December 2019 against the current economic environment and revised economic forecasts in light of COVID-19 related developments since the reporting date.

The Group recognises that the current weightings used in the year ended 31 December 2019 financial statements do not consider the impact of recent economic changes arising from the effects of COVID-19 and therefore has sought to adjust its macroeconomic weightings in order to reflect this in the form of an increase to the severe downside weighting. An illustration of the potential effect on ECL as a result of a shift in weightings is shown below. The weightings assume a severe downside weighting which is more pessimistic than our current weighting in order to recognise the new threat of COVID-19, but remain below the pessimistic sensitivity weightings disclosed in note 2 due to the severity of the Bank of England stress ACS scenario which was even more negative that the BoE COVID-19 scenarios (Bank of England May 2020 Monetary Policy Report scenario). The estimated impact of potential mitigations to the impact on ECL, such as the support the Group is offering those customers who are experiencing financial difficulty and government support available to consumers as a result of the pandemic, has not been subject to audit as the impact cannot be objectively verified. The impact has however been considered in assessing the potential impact of COVID-19 on our macroeconomic weightings.

Branch based lending:

Macroeconomic weightings	Weighting	Impact on ECL £'000
Current:		
Base	50%	
Downside stress	30%	
Severe downside stress	15%	
Positive	5%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Increase in severe downside weighting:		
Base	50%	
Downside stress	15%	
Severe downside stress	30%	
Positive	5%	
Impact on ECL		(2,076)
Pessimistic:		
Base	50%	
Downside stress	0%	
Severe downside stress	50%	
Positive	0%	
Impact on ECL		(2,923)

Guarantor Loans Division

Macroeconomic weightings	Weighting	Impact on ECL £'000
Current:		
Base	50%	
Downside stress	30%	
Severe downside stress	15%	
Positive	5%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Increase in severe downside weighting:		
Base	50%	
Downside stress	15%	
Severe downside stress	30%	
Positive	5%	
Impact on ECL		(39)
Pessimistic:		
Base	50%	
Downside stress	0%	
Severe downside stress	50%	
Positive	0%	
Impact on ECL		(157)

The final impact of COVID-19 on expected credit losses remains uncertain and could be significantly higher or lower than anticipated. The Group notes that in particular, for the Guarantor Loan division, while the proportion of payments being paid by guarantors in April and May 2020 was broadly unchanged from that prior to the restrictions coming into force, given the strong loan book growth prior to the restrictions and the uncertainties surrounding the outcome of the pandemic, it is possible that the level of loan loss provisions could increase in 2020. As the Group's assessment of its status as a going concern detailed on page 87 relies upon the impact of a range of assumptions which cannot be verified with certainty, a material uncertainty exists with regards to this.

As noted in the going concern and viability statement on pages 87 and 92, the impact of COVID-19 on the Group's future profitability is materially uncertain and therefore depending on the outcome, it may result in a future impairment of the deferred tax asset recognised as at 31 December 2019 of up to £1.7m.

The impact of potential reduced collections and lending across all our divisions and a revised economic outlook has been considered in the viability assessment and going concern assessment on pages 92 and 87. The Board will continue to monitor the Group's financial position carefully over the coming weeks and months as a better understanding of the impact of COVID-19 is developed.

The full impact of COVID-19 on the Group's future financial performance therefore remains uncertain and will be heavily influenced by a number of factors including the severity and duration of the pandemic as well as the way in which both government and consumers respond, thereby preventing the Group from quantifying the potential impact on our 2020 revenues and impairment provisions.

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 2018 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 2018.

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 refer note 8).

Key performance indicator	
Impairments/revenue	Impairments as a percentage of normalised revenues
Impairments/average loan book	Impairments as a percentage of 12-month average net loan book, excluding fair value adjustments
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
Cost:income ratio	Normalised administrative expenses as a percentage of normalised revenue
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

Alternative Performance Measures reconciliation

1. Net debt

	31 Dec 2019 £000	31 Dec 2018 £000
Borrowings	**323,200**	272,800
Cash at bank and in hand[1]	**(13,997)**	(13,350)
	309,203	259,450

1 Cash at bank and in hand excludes cash held by Parent Company that sits outside of the security group.

This is deemed useful to show total borrowings if cash available at year end was used to repay borrowing facilities.

2. Normalised revenue

	Branch-based lending		Guarantor loans		Home credit		Group	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Reported revenue	**93,002**	75,621	**26,947**	18,028	**60,835**	65,175	**180,784**	158,824
Add back fair value adjustments	**–**	3,958	**2,873**	3,720	**–**	–	**2,873**	7,678
Normalised revenue	**93,002**	79,579	**29,820**	21,748	**60,835**	65,175	**183,657**	166,502

Fair value adjustments have been excluded due to them being non-business-as-usual transactions. They have resulted from the Group making acquisitions and do not reflect the underlying performance of the business. Removing this item is deemed to give a fairer representation of revenue within the financial year.

3. Normalised operating profit

	Branch-based lending		Guarantor loans		Home credit		Group	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Reported operating profit	**29,653**	22,315	**5,895**	3,791	**9,102**	6,714	**32,066**	18,742
Add back fair value adjustments	**–**	3,958	**2,873**	3,720	**–**	–	**2,873**	7,678
Add back amortisation of intangibles	**–**		**–**	–	**–**	–	**7,226**	8,681
Normalised operating profit	**29,653**	26,273	**8,768**	7,511	**9,102**	6,714	**42,165**	35,101

Fair value adjustments have been excluded due to them being non-business-as-usual transactions. They have resulted from the Group making acquisitions and do not reflect the underlying performance of the business. Removing this item is deemed to give a fairer representation of revenue within the financial year.

4. Normalised profit before tax

	31 Dec 2019 £000	31 Dec 2018 £000
Reported profit before tax	**(75,976)**	(2,365)
Add back fair value adjustments	**2,873**	7,678
Add back amortisation and write-off of intangibles	**7,226**	8,681
Add back exceptional items	**80,584**	–
Normalised profit before tax	**14,707**	13,994

Fair value adjustments, amortisation of intangibles, and exceptional items have been excluded due to them being non-business-as-usual transactions. The fair value adjustments and amortisation of intangibles have resulted from the Group making acquisitions, whilst the exceptional items are one-off and are not as a result of underlying business-as-usual transactions (refer to note 8 for further detail on exceptional costs in the year) and therefore do not reflect the underlying performance of the business. Hence, removing these items is deemed to give a fairer representation of the underlying profit performance within the financial year.

5. Normalised profit for the year

	Group	
	31 Dec 2019 £000	31 Dec 2018 £000
Reported loss for the year	**(76,308)**	(2,307)
Add back fair value adjustments	**2,873**	7,678
Add back amortisation of intangibles	**7,226**	8,681
Add back exceptional items	**80,584**	-
Adjustment for tax relating to above items	**(2,929)**	(3,108)
Normalised profit for the year	**11,446**	10,944
Weighted average shares	**312,126,220**	312,713,410
Normalised earnings per share (pence)	**3.67p**	3.50p

As noted above, fair value adjustments, amortisation of intangibles and exceptional items have been excluded due to them being non-business-as-usual transactions. The fair value adjustments and amortisation of intangibles have resulted from the Group making acquisitions, whilst the exceptional items are one-off and are not as a result of underlying business-as-usual transactions (refer to note 8 for further detail on exceptional costs in the year) and therefore does not reflect the underlying performance of the business. Hence, removing these items is deemed to give a fairer representation of the underlying earnings per share within the financial year.

6. Impairment as a percentage of revenue

	Branch-based lending		Guarantor loans		Home credit		Group	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Normalised revenue	**93,002**	79,579	**29,820**	21,748	**60,835**	65,175	**183,657**	166,502
Impairment	**(20,635)**	(18,040)	**(7,996)**	(4,451)	**(16,435)**	(21,247)	**(45,066)**	(43,738)
Impairment as a percentage revenue	**22.2%**	22.7%	**26.8%**	20.5%	**27.0%**	32.6%	**24.5%**	26.3%

Impairment as a percentage revenue is a key measure for the Group in monitoring risk within the business.

7. Impairment as a percentage loan book

	Branch-based lending		Guarantor loans		Home credit		Group	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Reported opening net loan book	**182,661**	150,390	**86,971**	59,378	**41,026**	40,168	**310,659**	249,936
Less fair value adjustments		(3,958)	**(4,309)**	(8,030)			**(4,309)**	(11,988)
Normalised opening net loan book	**182,661**	146,432	**82,662**	51,349	**41,026**	40,168	**306,350**	237,948
Reported closing net loan book	**214,783**	182,661	**106,961**	86,971	**39,904**	41,026	**361,648**	310,659
Less fair value adjustments	**–**	–	**(1,437)**	(4,309)	**–**	–	**(1,437)**	(4,309)
Normalised closing net loan book	**214,783**	182,661	**105,524**	82,662	**39,904**	41,026	**360,211**	306,350
Normalised opening net loan book	**182,661**	146,432	**82,662**	51,349	**41,026**	40,168	**306,350**	237,948
Normalised closing net loan book	**214,783**	182,661	**105,524**	82,662	**39,904**	41,026	**360,211**	306,350
Average net loan book	**200,421**	166,421	**94,093**	67,005	**36,324**	37,997	**330,838**	271,423
Impairment	**(20,635)**	(18,040)	**(7,996)**	(4,451)	**(16,435)**	(21,247)	**(45,066)**	(43,738)
Impairment as a percentage loan book	**10.3%**	10.8%	**8.5%**	6.6%	**45.2%**	55.9%	**13.6%**	16.1%

Impairment as a percentage loan book allows review of impairment level movements year on year.

8. Net loan book growth

	Branch-based lending		Guarantor loans		Home credit		Group	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Normalised opening net loan book	**182,661**	146,432	**82,662**	51,349	**41,026**	40,168	**306,350**	237,948
Normalised closing net loan book	**214,783**	182,661	**105,524**	82,662	**39,904**	41,026	**360,211**	306,350
Net loan book growth	**17.6%**	24.7%	**27.7%**	61.0%	**(2.7%)**	2.1%	**17.6%**	28.7%

9. Return on asset

	Branch-based lending		Guarantor loans		Home credit	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Normalised operating profit	**29,653**	26,274	**8,768**	7,510	**9,102**	6,714
Average net loan book	**200,421**	166,421	**94,093**	67,005	**36,324**	37,997
Return on asset	**14.8%**	15.8%	**9.3%**	11.2%	**25.1%**	17.7%

The return on asset measure is used internally to review the return on the Group's primary key assets.

10. Revenue yield

	Branch-based lending		Guarantor loans		Home credit	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Normalised revenue	**93,002**	79,579	**29,820**	21,748	**60,835**	65,175
Average net loan book	**200,421**	166,421	**94,093**	67,005	**36,324**	37,997
Revenue yield percentage	**46.4%**	47.8%	**31.7%**	32.5%	**167.5%**	171.5%

Revenue yield percentage is deemed useful in assessing the gross return on the Group's loan book.

11. Risk adjusted margin

	Branch-based lending		Guarantor loans		Home credit	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Normalised revenue	**93,002**	79,579	**29,820**	21,748	**60,835**	65,175
Impairments	**(20,635)**	(18,040)	**(7,996)**	(4,451)	**(16,435)**	(21,247)
Normalised risk adjusted revenue	**72,367**	61,539	**21,823**	17,297	**44,400**	43,928
Average net loan book	**200,421**	166,421	**94,093**	67,005	**36,324**	37,997
Risk adjusted margin percentage	**36.1%**	37.0%	**23.2%**	25.8%	**122.2%**	115.6%

The Group defines normalised risk adjusted revenue as normalised revenue less impairments. Risk adjusted revenue is not a measurement of performance under IFRSs, and you should not consider risk adjusted revenue as an alternative to profit before tax as a measure of the Group's operating performance, as a measure of the Group's ability to meet its cash needs or as any other measure of performance under IFRSs. The risk adjusted margin measure is used internally to review an adjusted return on the Group's primary key assets.

12. Operating profit margin

	Branch-based lending		Guarantor loans		Home credit	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Normalised operating profit	**29,653**	26,274	**8,768**	7,510	**9,102**	6,714
Normalised revenue	**93,002**	79,579	**29,820**	21,748	**60,835**	65,175
Operating profit margin percentage	**31.9%**	33.0%	**29.4%**	34.5%	**15.0%**	10.3%

13. Cost to income ratio

	Branch-based lending		Guarantor loans		Home credit	
	31 Dec 2019 £000	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000	**31 Dec 2019 £000**	31 Dec 2018 £000
Normalised revenue	**93,002**	79,579	**29,820**	21,748	**60,835**	65,175
Administration expense	**(42,235)**	(36,488)	**(12,895)**	(9,983)	**(35,298)**	(37,214)
Operating profit margin percentage	**45.4%**	45.9%	**43.2%**	45.9%	**58.0%**	57.1%

This measure allows review of cost management.

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